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United States Department of Agriculture

Office of Inspector General

September 1990

Office of Inspector General Semiannual Report to Congress

FY 1990—Second Half

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United States Department of Agriculture
Office of Inspector General
Washington, D.C. 20250

OCT 30 1990

The Honorable Clayton Yeutter
Secretary of Agriculture
Washington, D.C. 20250

Dear Mr. Secretary:

I respectfully submit the Office of Inspector General's Semiannual Report to Congress, summarizing our activities for the 6-month period ending September 30, 1990.

In this report, we have highlighted the work we have done in cooperation with the Food and Nutrition Service to strengthen the integrity of the Food Stamp Program. We have also described our efforts to assist program officials in making farm programs more efficient by advising agencies to tighten controls over payment limitation requirements, loanmaking decisions, statistical data collection, and program eligibility determinations, especially for Disaster Assistance Programs.

We have identified $8.5 million in recoveries and collections, and $215 million in management commitments to put funds to better use. Our investigative efforts resulted in 615 indictments, 303 convictions, and $15.9 million in fines, restitutions, and recoveries.

I appreciate the cooperation and support we have received from you and other senior managers in the Department and look forward to continued progress together.

Sincerely,

Leon Snead
LEON SNEAD
Inspector General

Enclosure

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IN FOCUS: THE FOOD STAMP PROGRAM

(IN FOCUS is a special feature of the Semiannual Report to Congress describing the Office of Inspector General 's (OIG) perspective on an area of particular interest to Congress and USDA management.)

Since its inception in 1961, the Food Stamp Program has received ongoing interest from lawmakers, program managers, academicians and the public. While many have debated its details, few have disagreed with the program's purpose and success: despite its flaws, the Food Stamp Program has helped millions of Americans buy the nutritious food they need.

By law, food stamps can be used only to buy food in authorized grocery stores. However, in practice, food stamps are sometimes diverted to other uses through sale or barter. Of particular concern in recent months has been the use of food stamps as a "second currency" to purchase drugs, weapons, stolen property and other illegal items. As a result of these transactions, family members who should receive food through the program do not.

This article focuses on the vulnerabilities of the Food Stamp Program, as identified by audits and investigations conducted by OIG, and on the strides made and efforts planned by the Food and Nutrition Service (FNS)and others to strengthen program integrity.

Background

The Food Stamp Program is the Department of Agriculture's largest program activity. During FY 1991, expenditures for the program will account for about one-third of USDA's total budget. About 28 million people received food stamp benefits at some time during FY 1989, the last year for which data are available; on the average, 18.8 million people per month in over 7 million households received assistance. In FY 1989, over $11.7 billion in stamps were issued; administrative costs of the program to the Federal Government were an additional $1.2 billion.

The Food Stamp Program is a cooperative activity of Federal, State and local governments. Although it is primarily a federally funded program, administered in accordance with Federal policy, States deliver the benefits and share 50 percent of the administrative costs. In addition, State and local welfare and law enforcement agencies play a significant role in ensuring that program regulations are followed.

Briefly, the Food Stamp Program works like this:

Food stamps are issued to eligible recipients through State welfare agencies. Recipients use food stamps to purchase food at FNS-authorized retail stores. The retail stores, in turn, deposit the food stamps at banks, which then credit the store accounts for their full face value. The banks send the redeemed food stamps to a Federal Reserve Bank, which credits the account of the retailer's bank, bills the U.S. Treasury for the value of the food stamps, and destroys them.

Because of the large dollars involved in the program, and the opportunities for abuse at various points of the system, OIG devotes a significant portion of its resources to food stamp matters. Our audits have focused on FNS management activities in administering the program, and on the adequacy of internal controls and systems designed to ensure the integrity of program operations. OIG investigations have focused on individuals and retailers who violate food stamp laws. Our experience indicates that each phase of the program requires continuing management attention if its integrity is to be maintained.

Certification and Issuance

To qualify for food stamps, applicants must meet certain eligibility criteria and provide proof of household circumstances. Certification workers at about 4,000 local offices determine applicant eligibility. Benefits are determined by household size and net income.

To measure the effectiveness of the certification process, and to assist States in identifying problems and developing corrective action plans, FNS established a quality control (QC) system. Our audits have shown that the QC system does accurately determine the error rate in the certification process. The QC error rate for overpayments has declined from 9.5 percent in FY 1980 to 7.4 percent in FY 1988. We believe a major factor in this decline was the institution by Congress of sanctions against States with high error rates.

States are responsible for maintaining case files to support the issuance of benefits. A recent OIG audit projected that documentation was inadequate to support issuance of an estimated $170 million in food stamp benefits to 252,000 households. The absence of documents is a significant management control weakness which can result in fraud and abuse.

Our audit work continues to note the need for improvements in the way States deliver food stamps to recipients. A recent audit disclosed serious weaknesses in one State's internal controls over the issuance of food stamps by contracted agents, the return of food stamps not picked up from agents by recipients, and the State's handling of recipients' complaints concerning agents.

While there is no precise way to determine the amount of fraud in the certification and issuance process, QC system figures indicate that about 1 percent of benefits are issued to recipients as the result of fraud. Recipient fraud investigations generally disclose that a beneficiary concealed income or inflated expenses in order to obtain a greater amount of food stamps than he or she was entitled to receive. Investigations have also disclosed elaborate schemes involving false documents, fictitious identities, and even fraud by welfare system employees who create "ghost" recipients and pocket the benefits.

Since States are responsible for certification and issuance, State agencies conduct the majority of investigations of recipient fraud. In return, they are reimbursed for 75 percent of their investigative expenses. This investment has paid off; during FY 1989, States conducted over 360,000 recipient fraud investigations which resulted in nearly 16,000 criminal convictions and 24,000 recipient disqualifications. OIG assists States in some of these cases, particularly when an interstate investigation is needed, or when a caseworker is suspected of fraudulent activity.

While FNS and the States have strengthened their antifraud efforts, we believe further improvements can be made. States need to increase their efforts to collect overpayments to recipients. Also, while computer wage-matches by States to detect incorrect reporting of income have been a requirement since 1983, we have found that wage-matches could be more effective if FNS encouraged States to develop systems to perform front-end matches at the time of application. Wage-matches could be further improved if States routinely performed both cross-State matches and matches with Federal wage files. We have found that such matches produce significant results. In the past two years, OIG wage matches conducted in 15 locations have identified over $1 million in questionable benefits.

Retailer Fraud

Recipients use food stamps to purchase food at about 220,000 retail stores nationwide. It is the responsibility of FNS to authorize stores to accept food stamps and to monitor their adherence to laws and regulations.

Supermarkets make up about 15 percent of the stores authorized to accept food stamps but handle about 74 percent of all food stamps redeemed. Our studies have shown that these large retailers generally have adequate controls and systems in place to prevent program abuse. We have continued to emphasize the need for FNS to concentrate its compliance efforts on small and medium-size retailers, such as convenience stores. FNS estimates that of the 220,000 authorized retailers, 53,000 may be selling nonfood items for food stamps, and over 3,200 retailers may be exchanging food stamps for cash.

OIG audits have found problems with FNS' accountability over food stamp redemptions. Discrepancies exist between the total number of food stamps redeemed by retailers through the banking system and the redemptions reported by retailers to FNS. To address this problem, FNS established a pilot project to improve food stamp accountability and reconciliation. Our review of the pilot found that it improved accountability, reconciliation and management control over redemptions. The pilot is being implementated nationwide.

Both FNS and OIG place major emphasis on identifying retailers who abuse the program, either by accepting food stamps for nonfood items, or by purchasing food stamps for cash. FNS' Compliance Unit monitors adherence to program regulations. During FY 1990, 5,447 retailers were reviewed by this unit; 1,395 committed violations warranting disqualification from program participation.

OIG initiates its retailer investigations based on information obtained from reviews of FNS store compliance, from other law enforcement agencies, and from citizen complaints to the OIG Hotline. During FY 1990, we conducted 351 investigations of allegations of retailer fraud and obtained 185 criminal convictions of individuals and businesses.

Trafficking

Food stamp trafficking has received increased media attention in recent months, especially those cases involving the exchange of food stamps for illegal drugs.

Since food stamp trafficking often involves individuals who are not FNS-Authorized Retailers, it is difficult to estimate the amount of trafficking accurately. However, there is no question that food stamp trafficking is widespread. For example, local welfare officials in a large metropolitan area estimated that at certain issuance points where trafficking was believed to be most widespread, about 50 percent of recipients were approached by individuals who offered to buy their food stamps for cash. It was further estimated that about 50 percent of those approached appeared to sell at least some of their food stamps.

Since the FNS-authorized retailer is the key to the eventual redemption of illegally obtained food stamps, OIG directs significant resources toward identifying retailers who purchase the trafficked food stamps. In many of these investigations, we work closely with other Federal and local law enforcement agencies. It is not uncommon for food stamp trafficking to be part of larger criminal enterprises, such as theft and fencing rings, or drug trafficking operations.

On The Horizon

Historically, OIG has worked with FNS and Congress to explore methods to make the program more effective and efficient and to reduce opportunities for program fraud and abuse.

We strongly support several current initiatives to address fraud in the Food Stamp Program. FNS is testing Electronic Benefits Transfer (EBT) systems as an alternative to paper food coupons. An EBT system offers the potential to reduce benefit diversions due to street trafficking. Congress recently passed several initiatives proposed by the administration as part of the 1990 farm bill which address fraudulent activities by retailers and traffickers. Among the new provisions are increased criminal penalties for persons convicted of food stamp trafficking, authority for FNS to obtain administrative monetary penalties against nonprogram participants who illegally possess food stamps, and increased monetary penalties against authorized retailers who violate program regulations. These new penalties should act as a deterrent to those who might abuse the Food Stamp Program, and we strongly support such measures.

OIG and FNS have also undertaken several joint initiatives to address food stamp fraud. First, we are working with States to encourage those who do not have food-stamp specific criminal statutes to enact them. Specific State criminal statutes enable local prosecutors to prosecute food stamp trafficking in their State more effectively. Second, we have jointly proposed to establish a strike team of investigators in FY 1992, in order to increase resources to detect and investigate food stamp fraud at the retailer level. If

approved, both OIG and FNS would receive additional staff and resources to identify and investigate cases of fraud.

Conclusion

For the past 29 years, the Food Stamp Program has successfully contributed to improving the health and nutrition of low-income Americans. It has also exemplified the benefits of cooperation between levels and branches of government. We believe that continued cooperation between the States, Congress, and the administration will ensure continued success of this valuable benefit program.

EXECUTIVE SUMMARY

This is the 24th Semiannual Report issued by the Office of Inspector General (OIG), U.S. Department of Agriculture (USDA), pursuant to the provisions of the Inspector General Act of 1978 (Public Law 95-452) and Section 106 of the Inspector General Act Amendments (Public Law 100-504). This report reflects the changes in reporting requirements of Section 106 and covers the period April 1, 1990, through September 30, 1990.

The following excerpts summarize the results of our work, as reported in this Semiannual Report:

$90.7 Million in Questioned Payments Found in Reviews of Disaster Assistance Programs

Improper determinations of yields and rates in the Agricultural Stabilization and Conservation Service's (ASCS) Emergency Crop Loss Program resulted in overpayments to producers that exceeded $89 million. Inflated or fictitious loss claims and inaccurate reporting by producers under ASCS' Livestock Feed Program resulted in overpayments of $1.1 million. Improper calculations of acreages, income, and expenses in the Farmers Home Administration's (FmHA) Emergency Loan Program resulted in excess loan amounts of $600,000, a 28-percent error rate for our sample.

We recommended that ASCS and FmHA officials improve their controls over eligibility determinations for the emergency programs, and that ASCS officials change their policy of crediting producers with average yields when their actual yields are less.

$187 Million Overpaid to Producers Because of the Use of Average Price Data

The National Agricultural Statistics Service (NASS), upon whose statistics ASCS bases its deficiency payments and other price support funding, collected and disseminated inaccurate price data, resulting in overpayments of $187 million to cotton and rice producers. NASS did not ensure that buyers provide accurate sales data, and it did not include certain price support benefits in its average price determinations. The agency agreed to improve data collection procedures and to seek a policy decision on whether to include price support payments when determining the average price.

Tobacco Companies Defraud GSM 102/103 Programs

In North Carolina, eight tobacco companies were fined a total of $300,000 and agreed to pay up to $1.1 million in restitution to the Commodity Credit Corporation after they pled guilty to filing false statements with USDA and the U.S. Customs Service in connection with the sales of tobacco to Egypt and Iraq. Six of the companies pled guilty to filing false statements relating to their payments of about $1.6 million in After-Sales Service Agreements to Iraq, and two companies pled guilty to representing foreign-grown tobacco falsely as domestically grown.

$5.9 Million in Collections Lost

One State we reviewed did not ensure that local offices reduced food stamp allotments, as required, to recover claims against recipients who were still eligible for benefits. Two large offices in the State could have collected an estimated $5.9 million of $11 million in claims if they had reduced allotments. Large offices like these could not pursue collections efficiently because they managed claims manually. FNS is working with the State to improve its claims system.

$2.25 Million Settlement and Indictments for Theft of Government Cheese

One of the largest food processors of pizza paid the Government $2.25 million as part of a civil settlement. The company agreed to pay the money in settlement of the Government's claim that the company had reduced the amount of USDA-supplied cheese improperly in certain of its products.

Two of the company's management officials have pled guilty to charges that they conspired to defraud the Government by overstating the amount of USDA-supplied cheese used by the company. Seven other officials have been indicted for conspiracy and for theft of approximately $1.5 million worth of USDA-supplied cheese. Trials are pending.

27 Charged in Theft of USDA-Donated Commodities

In New York, 21 individuals and 6 corporations were charged with participating in a conspiracy to steal over $1 million worth of USDA-donated commodities over a 3 1/2-year period. The defendants were charged with stealing the commodities from a storage company, which was to store and distribute the commodities to school children or the needy throughout Long Island and New York City, and then selling the commodities to local delicatessens, restaurants, and other food establishments. Those charged include companies under contract with New York State and USDA to

distribute USDA-donated foods, principals of the companies, as well as individuals and businesses that purchased the stolen foods. Trials are pending.

Producers Exceed Payment Limitations Through Farm Reorganizations and Misrepresentation

Some recipients of deficiency payments, land diversion payments, and Conservation Reserve Program (CRP) payments reorganized their farms or gave false information about their operations to evade the $50,000 payment limitation. Producers in the CRP received $1.3 million and were scheduled to receive $3.5 million in overpayments because they evaded payment limits or violated other eligibility requirements.

Business and Industrial (B&I) Loan Program Needs Stronger Controls

FmHA guaranteed B&I loans to borrowers who did not have enough required equity in their operations or who used guaranteed loan funds to refinance non-B&I debts, thus transferring the lenders' risk to the Government. Lenders serviced some loans improperly by ignoring routine maintenance or, in one case, overlooking an existing prior lien on the borrower's collateral. FmHA will pay $28 million in guarantees for three bankrupt borrowers we reviewed, and may recover only $1 million of this through liquidation.

$1.2 Million Fine for False Insurance Claims

A grape farmer in California was fined almost $1.2 million for filing false claims with the Federal Crop Insurance Corporation (FCIC). The court determined that the farmer inflated his insurance claims to FCIC in 1982 and 1983 by understating his grape production and overstating his crop losses. The inflated claims resulted in approximately $400,000 in overpayments by FCIC. The judge ordered a payment of triple damages, which is the maximum amount allowed under the civil False Claims Act.

Costs of Timber Sale Defaults Not Recovered

When timber purchasers default on their contracts with the Forest Service (FS), either they or their bondholders are liable for damages, including the cost to the FS for administering the default claim. While the FS is pursuing its claims against these purchasers, it has not included its administrative costs in the claims, nor has it limited bondholder appeals. For the defaulted contracts we reviewed, the FS collected 3 cents on each dollar spent on administrative costs.

Approval Process Results in Flawed Labels for Meat and Poultry Products

About 25 percent of the labels we reviewed for meat and poultry products contained errors, including misleading health and nutrition claims. The flawed labels were approved partly because of the limited amount of review time that could be spent on each label application: the Food Safety and Inspection Service's (FSIS) staffing remained constant over the past 5 years while the number and complexity of applications increased 44 percent. Because of the errors and misleading labels we noted, we recommended that FSIS improve its review process and take stronger enforcement action on health and nutrition claims on USDA approved labels.

Companies and Officers Charged With Meat Inspection Violations

Three separate investigations resulted in the indictment of two meat plants and eight of their officers and employees, as well as guilty pleas by two owners of another plant and a cattle buyer. The defendants were charged with processing and selling adulterated meat and with misrepresenting the meat as having been inspected and graded by USDA.

Increased Use of Concentrated Banking Could Save $2.6 Million

Some ASCS county offices deposit their collections in local banks that transfer the funds electronically to a "concentrator" bank for same day deposit. Such deposits save the Government millions of dollars in interest charges. Another $2.6 million could be saved if more county offices used the Concentration Banking System, either by establishing their own connection to it or by taking advantage of the system of another USDA agency.

Agencies Not Fully Aware of Nonprocurement Debarment and Suspension Requirements

Many USDA agencies had unnecessarily exempted nonprocurement program participants from debarment and suspension actions. While USDA management has required agencies to reevaluate exempted domestic programs, the department still needs to take action to determine whether international programs should be included under the debarment and suspension requirements.

SUMMARY OF AUDIT ACTIVITIES

Audit Reports Issued

Reports Issued	115
Audits Performed by OIG	83
Audits Performed Under the Single Audit Act	19
Audits Performed by Others	13

Management Decisions Made

Number of Reports	226
Number of Recommendations	949
Dollar Impact (millions)	
Management Commitments To Seek Recovery	$8.4[ab]
Management Commitments To Put Funds to Better Use	$213.9[ac]
Total	$222.3

[a] These were the amounts the auditees agreed to at the time of management decision.

[b] The recoveries realized could change as the auditees implement the agreed-upon corrective action plan and seek recovery of amounts recorded as debts due the Department.

[c] In this category are monetary amounts identified as having been expended erroneously or improperly due to agency action and for which recovery is not possible. This also includes amounts incurred or earned in good faith by others because they relied on incorrect or improper guidance, interpretations, or directions by agency personnel. If statistical projections were used in determining the values, the midpoint estimate was used

SUMMARY OF INVESTIGATIVE ACTIVITIES

Investigative Reports and Cases

Reports Issued	736
Cases Opened	898
Cases Closed	550
Cases Referred for Prosecution	521

Impact of Investigations

Indictments	613
Convictions	309[a]
Dollar Impact (millions)	
Recoveries/Collections	$4.7[b]
Restitutions	$7.1[c]
Fines	$3.8[d]
Cost Avoidance	$1.2[e]
Administrative Penalties	$ .5[f]
Administrative Sanctions Employees	34
Businesses/Persons	195

[a] These include convictions and pretrial diversions.

[b] In this category is all money received by USDA or other Government agencies as a result of OIG investigations.

[c] Restitutions are court-ordered repayments of money lost through a crime or program abuse.

[d] Fines are court-ordered penalties.

[e] This category consists of loans or benefits not granted as the result of an OIG investigation.

[f] This category includes monetary fines or penalties authorized by law and imposed through an administrative process as a result of OIG findings.

FOOD AND CONSUMER SERVICES

FOOD AND NUTRITION SERVICE (FNS)

FOOD STAMP PROGRAM (FSP)

Our investigations into fraud against the FSP are concentrated in four specific categories: fraud by retail grocers who are authorized to accept food stamps; the use of food stamps as currency (trafficking) by individuals who are not authorized to participate in the program; internal fraud by those who are responsible for issuing program benefits; and fraud by food stamp recipients. Following are examples of investigative results in these categories during the past 6 months.

Retail Grocer Fraud

- An interstate food stamp fraud investigation in Houston, Texas, and Sacramento, California, resulted in the Federal indictment of four individuals on charges of trafficking in $675,000 worth of food stamps. In the indictment, an authorized retail store operator and an associate in Houston were charged with transferring food stamps obtained illegally to an authorized retail store owner and his wife in Sacramento. The indictment further alleged that, after redeeming the food stamps for cash, the Sacramento store owner and his wife sent cash or cashier's checks to the retailer in Houston. At the time of the investigation, FNS, in a separate action, was in the process of disqualifying the retailer in Houston for having food stamp redemptions in excess of the store's reported food sales. The investigation was conducted jointly with the State of California's Department of Justice and local police. Trials are pending.

- Legal action has been completed against a Los Angeles, California, retail store owner and his wife who were indicted and convicted for fraudulently redeeming approximately $1.6 million in food stamps. The store owner was sentenced to 46 months in prison and his wife to 18 months. Both were ordered to make restitution of about $1.6 million, and the owner was also fined $1 million.

- As the result of a two-phased food stamp investigation conducted jointly with local law enforcement agencies in the Baltimore and Washington, D.C., areas, 39 individuals were arrested for food stamp trafficking and a variety of other charges, including drug-related violations and theft. The first phase of the investigation involved 32 Baltimore area residents, including 22 individuals associated with 9 retail stores. During the investigation, the store owners and their associates purchased food stamps in exchange for cash or narcotics. The remaining individuals were charged with various counts of welfare and food stamp fraud, distribution of narcotics, theft, and conspiracy. The second phase involved the arrest of seven Washington, D.C., residents who purchased approximately $49,000 in food stamps from undercover OIG agents in exchange for approximately $15,000 in cash, a semiautomatic pistol, and quantities of crack cocaine. This phase ended with a "buy-bust," in which three individuals were arrested when they exchanged 7 1/2 ounces of crack cocaine for $40,000 in food stamps. To date, four defendants have pled guilty and have been ordered to pay approximately $17,000 in fines and restitutions. Two of the four were also sentenced to prison. Prosecution of the other defendants is pending.

- In Ohio, Federal civil false claim suits have been filed against three retail stores that had been investigated a total of seven times by OIG between 1987 and 1989. The suits, which ask for triple damages for food stamps purchased by the stores plus $10,000 for each purchase, total approximately $242,000. Our previous investigations of the three stores resulted in criminal convictions of employees who purchased food stamps for cash. In addition, store employees purchased food stamps during FNS compliance reviews prior to the OIG investigations.

Trafficking

- Two investigations in Texas resulted in the arrest of 116 persons for food stamp trafficking and narcotics violations. The first operation, conducted jointly with local law enforcement officers, resulted in the arrest of 54 persons. Thirty-five defendants, including two retail store owners authorized to accept food stamps, were charged in Federal indictments with exchanging food stamps for cash or narcotics, or distributing controlled substances. The remaining 19 defendants were indicted by a State grand jury on drug-related charges. To date, 8 persons have been convicted and sentenced. The second operation, conducted jointly with local and State law enforcement officers, resulted in the arrest of 62 persons, including 5 retailers. Prosecution of all 62 persons is pending.

- Federal grand juries in Mississippi indicted 49 individuals, including the owners or employees of 17 retail grocery stores, for trafficking in food stamps. Of those indicted, 12 were also charged with conspiracy or drug-related violations. The indictments alleged that the individuals purchased about $23,000 in food stamps in exchange for $12,800 in cash and quantities of drugs. Several of the investigations were conducted jointly with FNS compliance officers and with local police.

- In Arkansas, the U.S. Attorney's Office requested that OIG assist the Arkansas State police with an investigation of a narcotics trafficking operation. The Arkansas State Police had received information that cocaine was being exchanged for food stamps. As a result of this operation, which was conducted jointly with the Arkansas State Police, the Federal Bureau of Investigation, the Bureau of Alcohol, Tobacco, and Firearms, and the Drug Enforcement Administration, a total of 127 individuals were charged with drug related violations. Twenty-one of those individuals were also charged with food stamp trafficking. Trials are pending.

Delivery System Fraud

- A data entry operator employed with the Arkansas Department of Human Services (ADHS) was sentenced to 8 months in prison after pleading guilty to charges of unauthorized acquisition and possession of food stamps, mail fraud, and misuse of Social Security numbers. This investigation, conducted jointly with ADHS, the U.S. Postal Inspection Service, and the U.S. Department of Health and Human Services, was based on information from ADHS that the employee obtained food stamps illegally. The investigation found that the employee used fictitious Social Security numbers to create false food stamp cases and the U.S. mail to transmit the food stamps, valued at over $17,000. Two associates, who received the food stamps through the mail, also pled guilty to food stamp and mail violations. One was sentenced to 8 months in prison and the other was sentenced to 6 months in a halfway house.

- In Indiana, an investigation resulted in the arrests of a county office issuance clerk and a food stamp recipient on charges of forgery, conspiracy, and welfare fraud. The OIG investigation was initiated after welfare officials reported that missing food stamp Authorization-to- Participate (ATP) cards

were negotiated through a welfare issuance clerk. Our investigation revealed that after stealing the ATP cards, the issuance clerk and a recipient forged signatures on the stolen ATP cards to obtain the food stamps illegally. The stolen ATP cards represented about $4,200 in food stamp benefits. To date, both the issuance clerk and the recipient have pled guilty to conspiracy to commit forgery. The recipient was ordered to make restitution in the amount of $500. Sentencing of the issuance clerk is pending.

Recipient Fraud

- In Las Vegas and Reno, Nevada, during the course of investigations conducted with the Nevada State Welfare Department, 51 recipients were charged with providing false information when applying for food stamp and Aid-to-Families-With-Dependent-Children (AFDC) benefits. In the first operation, 30 Las Vegas recipients allegedly used false information to obtain a total of $70,000 in food stamp and AFDC benefits. One of the recipients charged was residing and working in another State while receiving benefits in Las Vegas. Thus far, 20 recipients have been convicted, ordered to make restitution, and disqualified from participating in the FSP for at least 6 months. Three of the convicted recipients were given prison sentences. In the second operation, 30 Reno recipients allegedly used false information to obtain a total of $75,500 in food stamp and AFDC benefits. Thus far, 21 recipients have been charged and 11 have been convicted. Nine additional recipients are currently under investigation.

Computer Analyses Identified 348 Households That Received $400,000 in Questionable FSP Benefits

We previously reported that we conducted computer matches of Federal employees' and retirees' records with FSP recipient records in 13 cities or States. These matching efforts were in addition to State matching requirements. We continued these efforts in large urban areas to identify Federal employees and retirees participating in the FSP but not reporting wages, and to identify recipients who are crossing State lines to work but not reporting wages.

During this period, we reviewed records of 444 Federal employees and retirees participating in the FSP in 2 States, and found 241 had not reported their Federal income accurately. These recipients received over $240,000 in questionable FSP benefits. We also matched income records of one State with FSP recipient records of another State and identified that 63 of the 116 recipients who received income across State lines had not reported their income accurately. These recipients received over $101,000 in questionable FSP benefits.

In one State, we also used computer analyses to identify recipients who were participating in more than one household simultaneously. We identified 44 cases where recipients had received a total of $68,000 in duplicate FSP benefits.

Failure To Implement Allotment Reduction Procedures Resulted in an Estimated $5.9 Million in Lost Collections in One State

We conducted a review in one State to determine whether corrective actions were taken on problems identified previously by FNS management evaluations. The State administers FSP operations that total over $300 million annually.

FNS had conducted management evaluations at the State agency and selected local offices, and reported recurring deficiencies to the State agency for corrective action. However, we noted that problems have continued. We found that the State agency was neither establishing claims aggressively nor collecting over $36 million in claims already established. Also, the State did not ensure that local offices implemented procedures to reduce allotments to recover money owed. Larger volume local offices were still managing large claim caseloads using manual systems when computer systems would be much more effective. Two local offices that we visited had over 33,000 claims established, totaling over $11 million. We estimated that as much as $5.9 million could have been collected at these two offices had the offices reduced coupon allotments to recipients who had claims established against them but who remained eligible for FSP benefits.

FNS agreed to take action and is working with the State agency to achieve improvements. Of significance, FNS is requiring the State agency to automate its claims systems, or otherwise ensure that actions, such as allotment reductions, are made to pursue claims owed.

SPECIAL SUPPLEMENTAL FOOD PROGRAM FOR WOMEN, INFANTS, AND CHILDREN (WIC)

States Overclaimed $1.1 Million in WIC Administrative Costs

We issued audit reports on WIC administrative costs claimed by four States. The audits identified about $1.1 million in questioned costs and potential savings. The

States claimed ineligible and unsupported costs, including personal services, ADP support services, and indirect costs. The State agencies did not monitor local agencies adequately to ensure that their administrative costs were charged properly.

We recommended that FNS recover overclaimed costs, ensure that States revise accounting procedures to conform to Government accounting principles and to allocate costs properly, and require that States test local agencies' cost claims sufficiently to ensure their propriety. FNS is taking corrective actions in these areas. We have completed audits in 10 States as part of a coordinated review of WIC administrative costs. We are currently analyzing the results of this 10-State review to identify problem trends and make recommendations to FNS to improve operations.

FOOD DISTRIBUTION PROGRAM

$2.25 Million Settlement and Indictments for Theft of Government Cheese

One of the largest food processors of pizza paid the Government $2.25 million as part of a civil settlement. The company agreed to pay the money in settlement of the Government's claim that the company had reduced the amount of USDA-supplied cheese improperly in certain of its products. Our investigation disclosed that, in 1985 and 1986, the company diverted more than $1 million of USDA-supplied cheese that was to be used on pizzas and other products for the school lunch program.

Two of the company's management officials have pled guilty to charges that they conspired to defraud the Government by overstating the amount of USDA-supplied cheese used by the company. Seven other officials have been indicted for conspiracy to defraud and for theft of approximately $1.5 million worth of USDA-supplied cheese. Trials are pending.

21 Individuals and 6 Corporations Charged in Theft of USDA-Donated Commodities

In New York, 21 individuals and 6 corporations were charged with participating in a conspiracy to steal over $1 million worth of USDA-donated commodities over a 3 1/2-year period. The defendants were charged with stealing the commodities from a storage company, and then selling the commodities to local delicatessens, restaurants, and other food establishments. The storage company was to store and distribute the commodities to school children or the needy throughout Long Island and New York City. Those charged include companies under contract with New York State and USDA to distribute USDA-donated foods, principals of the companies, as well as individuals and businesses that purchased the stolen foods. Trials are pending.

CHILD AND ADULT CARE FOOD PROGRAM (CACFP)

Unreliable Records and Misstated Claims Raise Questions About Reimbursements

OIG continues to contract with certified public accounting (CPA) firms to perform audits of child and adult care institutions that receive reimbursements for the CACFP directly from FNS. Audits at two large nonprofit institutions in a major metropolitan area disclosed the following significant problems:

- For one local-government sponsor, the auditor questioned the validity of the program records maintained to support meal counts. The sponsor's records showed that virtually all meals delivered had been served without regard to participant absenteeism. Onsite testing disclosed an absenteeism rate in excess of 30 percent. As a result, the CPA concluded that the records available were unreliable and declined to express an opinion on the allowability of over $2.9 million the sponsor claimed for program reimbursement.

  The auditor's tests did disclose actual questioned costs of over $11,000 because of misstatements in the number of children enrolled for free and reduced-price meals, meals claimed in excess of the sponsor's facilities' license capacity, and meals claimed in excess of meal count records.

  FNS is taking corrective actions by requiring the sponsor to develop operating procedures to ensure that meal counts are accurate, attendance records are kept, and site personnel are trained.

- One sponsor misstated the number of free, reduced-price, and paid participants; inflated the number of meals served; claimed meals that did not meet minimum requirements; and claimed administrative costs in excess of its approved budget. The sponsor received excess reimbursement of about $81,000. FNS is initiating action to recover these funds. At 3 meal sites, the sponsor chose to prepare onsite meals while contracting for the delivery of meals at its other 93 sites. The CPA found that the cost to prepare the meals at the three sites exceeded by over $87,000 the cost to obtain the same number of contracted meals. In following up on our recommendations, FNS found that some of the meals were sold for nonprogram purposes. As a result, FNS has requested additional audit assistance to determine the extent of the unauthorized meal service.

Prison Sentences Handed Down for Day Care Sponsors

Legal action has been completed against the director and codirector of a Louisiana church's day care meals program who were indicted for conspiracy, arson, and submitting false claims. Both defendants pled guilty to defrauding the Government of over $46,000 by submitting meal reports listing names of fictitious children and providers. The director, who tried to burn the building in which the program records were kept, also pled guilty to arson. The director was sentenced to 2 years in prison and the codirector was sentenced to 4 months in prison and 4 months at a halfway house.

INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS

AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE (ASCS)

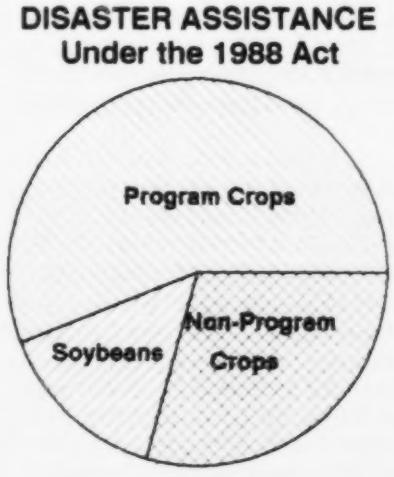
ASCS administers farm commodity, conservation, environmental protection, and emergency programs. These programs provide for commodity loans and price support payments to farmers; commodity purchases from farmers and processors; commodity storage and handling; acreage reduction; cropland set-aside and other means of production adjustment; conservation cost-sharing; and emergency assistance. Financing for ASCS commodity programs comes through the Commodity Credit Corporation (CCC), a Government entity for which ASCS provides operating personnel.

FY 1990 outlays for ASCS are estimated at $2 billion for the traditional conservation programs and the Conservation Reserve Program. All other ASCS operations are funded by CCC, with estimated outlays of $8.2 billion, including $1 billion for crop disaster payments and other disaster assistance programs.

Crop Yields and Payment Rates Used for the Emergency Crop Loss Assistance Program Need Clarification

The Disaster Assistance Act of 1988 authorized financial assistance to farmers who produced either program crops (wheat, corn, barley, etc.) or nonprogram crops (sweet corn, potatoes, apples, etc.) and who experienced crop yields of at least 35 percent below normal. Qualifying disaster conditions included drought, excessive moisture, hail, insect infestation, heat, or plant disease. As of December 31, 1989, disaster assistance payments for crop losses totaled $3.4 billion for 722,000 producers. (See Figure 1)

Figure 1



Our audit disclosed two major issues that ASCS needs to address to ensure that producers receive fair and equitable payments for crop losses.

- The county average yields and basic rates established by State offices for nonprogram crops, which generally were obtained from the National Agricultural Statistics Service (NASS), were not always supported. Our review of disaster benefits paid on selected nonprogram crops in five States disclosed overpayments that may exceed $87.5 million because of inaccurate NASS data. We also found other procedural problems concerning eligibility and benefit determinations resulting in overpayments totaling about $1.5 million.

- The act stated that yields for disaster payments will be based on proven yields, or on county average yields if producers cannot prove their yields. ASCS procedures provided that yields be based on county average yields unless the producer could prove a higher yield. For producers who submitted production evidence of actual yields that were lower than county averages, their yields would be raised to the county average yields. Thus, producers whose yields are normally less than the county averages, have received more disaster benefits than would be paid if benefits were based on normal production. We could not quantify the total impact because producers generally did not provide production evidence unless it supported higher yields. We did note two examples where producers who would have received disaster assistance totaling $9,768 based on actual production records actually received $43,449 when their yields were raised to the county average.

We recommended that ASCS change procedures used to calculate disaster assistance payments and to determine county average yields and payment rates. We also recommended that the agency perform second-party reviews of eligibility determinations and payment calculations. ASCS agreed to work with NASS to improve the reliability of the yield data obtained.

Regarding the use of proven yields or county average yields, ASCS believes they have implemented the program correctly. We have asked the agency to review this issue, and that review is underway in the Department.

Producers Incorrect Reports Cause Overpayments in the Livestock Feed Program

The Disaster Assistance Act of 1988 authorized assistance to eligible owners of livestock because of crop feed losses caused by a natural disaster. To obtain assistance, producers reported crop losses, feed on hand, livestock inventories, and cost of feed purchased. They also had to certify that their gross revenues did not exceed $2.5 million. For FY 1989, program payments were about $50 million.

OIG reviewed the 1988 program at 16 county offices in 6 States, concentrating on areas of potential program abuse. Our review of $4.5 million in payments to 169 producers identified improper payments of $1.1 million (about 25 percent) to 48 producers (about 28 percent). Six producers were overpaid a total of $119,000 because they reported revenue incorrectly, and 42 producers were overpaid about $1 million because they submitted inflated or fictitious feed invoices, reported fictitious disaster losses, reported livestock and losses inaccurately, and made computation errors. These problems were not discovered because producers' self-certifications of compliance were not verified and because controls were not adequate to ensure the accuracy of feed purchases, livestock inventories, and the disaster losses claimed by applicants. We are currently investigating several cases involving the fictitious feed invoices.

We recommended ASCS improve its controls over program eligibility and verification of reported information. ASCS is in the process of implementing necessary corrective action to strengthen the procedures for the 1990 program.

Producers Reorganize OperationsTo Take Advantage of New Payment Limitation Rules

In 1980, Congress established an annual $50,000 payment limitation for certain deficiency and land diversion payments to wheat, feed grain, cotton, and rice producers. However, as farm subsidy payments increased during the 1980's, the economic incentives created by these payments resulted in farm reorganizations to qualify new persons. These reorganizations were accomplished through the creation of corporations, partnerships, joint ventures, or similar arrangements through which new persons or entities could receive payments up to $50,000. In 1987, Congress amended the 1985 Food Security Act to tighten controls over payment limitation eligibility. These provisions, effective for the 1989 crop year, limited payments to (1) individuals participating in no more than three entities, and (2) individuals and entities that were actively engaged in farming.

During this reporting period, ASCS determined that three intermingled joint farming operations we questioned during a prior audit were schemes that defeated the purpose of the program. These operations increased from 12 owners in 1988 to 47 in 1989 and created 51 irrevocable trusts to maximize payments. ASCS is seeking recovery of $1.4 million for 1989 and is withholding 1990 payments. The producers have appealed these actions.

To continue our work to identify abuse, we used computer analysis and targeted 50 large farms that reorganized in 1989. We currently are reviewing their operations to determine whether they were conducted in compliance with approved plans. ASCS has also undertaken compliance reviews and is reviewing two producers, which were identified in our audit, to determine if a scheme was used to maintain payments.

While we are continuing to evaluate compliance with the new rules, we have recommended that ASCS develop a more cost-effective approach to yearend reviews by concentrating its efforts on multifarming operations that receive payments in excess of $50,000, rather than sampling all operations, most of which are eligible.

In addition to our audit work, several investigations were completed. Examples of these investigations disclosed the following:

- A farmer and land developer was indicted by a Federal grand jury in Nebraska for submitting false statements to ASCS. The indictment alleged that, for the purpose of obtaining diversion and deficiency payments from ASCS, the farmer had other individuals listed as the producers or operators on farmland in Nebraska that was actually owned and operated by him. The farmer received

payments of approximately $1 million as a result of the allegedly false statements.

- An investigation in Louisiana disclosed that a farmer used various individuals to front for his rice and cotton farming operations to evade the $50,000 payment limitation. As a result of our investigation, ASCS determined that 10 individuals who had applied for program support payments were ineligible for the payments and withheld $464,000, which it had intended to pay.

- In Arizona, a farmer was ordered to pay more than $200,000 in restitution after he pled guilty to theft of Government money. Our investigation showed that for 5 years the farmer forged the name of his former partner on documents submitted to ASCS and checks received from ASCS to evade the $50,000 payment limitation.

- A farmer and his son in Indiana were indicted by a Federal grand jury for conspiracy and submitting false statements to ASCS. The indictment alleged that to evade the $50,000 payment limitation, the two misrepresented their farming operation to ASCS by claiming they were equal owners of a farm even though the father actually owned 85 percent of it. This misrepresentation allegedly allowed the farmers to receive more than $12,000 in price supports to which they were not entitled. Trial is pending.

Producers Noncompliance With Requirements of the Conservation Reserve Program (CRP) Results in Questioned Payments Totaling $4.8 Million

Under the Food Security Act of 1985, a person entering land into the CRP must have owned or operated the land for not less than 3 years prior to signing it up. The person receives an annual payment for each of the 10 years of the contract period, but the total annual income from all CRP contracts for a "person" is limited to $50,000. Also, a "person" cannot enter into original contracts that provide for annual payments in excess of $50,000.

We made various analyses of ASCS' automated data files to identify entities whose eligibility may be questionable. Of 54 entities identified, we selected 18 for review that we believed had the highest probability for abusing program requirements. Reviews of the entities were made at 25 county offices in 9 States. We found that the controls designed to ensure producer eligibility for the CRP were not functioning properly at the county office level. Eight of the entities had received $1.3 million or were scheduled to receive $3.5 million in program payments for which they were not eligible. County offices were not adhering to program procedures when approving contracts or the producers misrepresented their operations.

We recommended that payments and contracts be corrected and that the other 36 cases we identified be reviewed. ASCS agreed to take corrective action and to initiate a review of the additional cases.

Improved Controls and Oversight Are Necessary for Problem Warehouses

In carrying out its various price support programs, CCC contracts with public warehouses for storing and handling commodities in inventory or pledged as loan collateral. USDA sets requirements and examines warehouses storing commodities owned by CCC or pledged to CCC as loan collateral. CCC's storage contract functions are carried out by ASCS personnel.

We conducted a review to determine whether procedures for handling deficiencies identified by warehouse examiners were adequate to correct the problems found, and if actions taken by CCC officials on warehouse shortages were in the best interest of CCC.

We found that actions taken by CCC officials regarding problem warehouses did not appear to be in the best interest of CCC. CCC incurred losses in excess of $11.2 million at these warehouses. Some of the problems we noted included:

- Funds due CCC totaling over $4 million were waived even though the waiver exceeded the CCC officials' delegated authorities.

- Warehouses that continually violated the provisions of the storage contracts were neither terminated nor debarred when warranted by the severity of the violations.

- Provisions of the storage contracts were not enforced when violated by the warehouses.

- Excessive storage and handling payments were made.

- CCC-owned grain was sold at a loss of $2.3 million.

We recommended that ASCS strengthen warehouse examination and contract provisions, and that it develop additional controls over the settlement process. Such controls would include maintaining documentation of decisions reached, establishing claims for excessive payments, and adhering to claims

collection standards and storage agreement provisions. We also recommended that CCC take action in the future to suspend or debar problem warehouses.

ASCS officials pointed out that the decisions made were in the best interest of CCC, given the conditions that existed at the time. ASCS also believed that it should pursue alternatives to suspending or debarring problem warehouses, or taking legal action against the warehouses. We are continuing to work to resolve our differences with agency officials.

Farmer Guilty of Defrauding ASCS

In Nebraska, a farmer was sentenced to 10 months' confinement under a work release program, fined $15,000, and ordered to pay more than $210,000 in restitution after he pled guilty to preparing and submitting a forged document to ASCS to obtain a CCC loan. The farmer admitted that he obtained and prepared a warehouse receipt for nonexistent grain and that he forged a signature on the receipt so that he could present it to ASCS as collateral for a loan.

FOREIGN AGRICULTURAL SERVICE (FAS)

FAS expands foreign markets for U.S. farm commodities by gathering, analyzing, and disseminating information on foreign market supply and demand; by working to gain access to foreign markets; and by promoting increased foreign consumption and use of U.S. agricultural commodities. FY 1990 funding included $30.5 million for foreign agricultural affairs, $14.3 million for foreign market information and access, and $53.7 million for foreign market development.

Weaknesses Found in CCC's Process of Approving Foreign Banks Under Export Credit Guarantee Programs

The Export Credit Guarantee (GSM 102/103) Programs are designed to expand U.S. agricultural exports by stimulating U.S. bank financing of foreign purchases on credit terms of up to 10 years. In every transaction, the foreign buyer's bank must issue an irrevocable letter of credit covering the port value of the commodity exported. CCC's guarantee covers 98 percent of the amount owed to the U.S. bank plus a portion of the interest in case the foreign bank defaults. Before announcing a GSM 102 or GSM 103 program, the proposed program is presented to the National Advisory Council on Fiscal and Monetary Policy, for their views and advice. CCC's contingent liability was $9.1 billion as of October 30, 1989. In FY 1989, CCC was mandated by law to make available not less than $5.5 billion.

As a followup to our September 1989 audit on the GSM 102/103 Programs, we performed a preliminary inquiry of the process CCC uses to analyze and approve foreign banking institutions. We found that CCC did not use normally accepted methods to review foreign financial institutions and did not have written procedures for the reviews it performed. We also noted the absence of internal control procedures for increasing foreign bank credit lines.

Based on our audit, the CCC officials took corrective actions to improve the analysis and approval process of foreign banking institutions participating in the GSM 102/103 Program. They also agreed to perform reviews of foreign banking institutions once written procedures are established and to provide better training to staff.

Deficient Participant Cost-Sharing Hampers Effectiveness of Targeted Export Assistance Program

The Food and Security Act of 1985 authorizes a 5-year Targeted Export Assistance Program to promote U.S. agricultural commodity exports. The program obligated $110 million in funds each fiscal year from 1986 through 1988 to help U.S. producers, burdened by unfair foreign trade practices, finance promotional activities for U.S. agricultural products. FAS reimburses the U.S. program participants for their costs to promote the overseas sales. The participants also receive help in the form of contributions from private organizations in the country they do business with, or from the foreign governments themselves. The U.S. participants and the "third-party" contributors enter into an agreement that details the extent of the promotional campaign and its costs. Although not required by current legislation, funding by the U.S. participants and foreign third parties is critical to a successful program.

We reviewed U.S. participants' and third parties' contributions. We found that contributions were not being made as prescribed in the approved activity plans, and that FAS did not implement internal procedures to ensure that each participant and third party contributed its share. For example, one U.S. participant agreed to spend $100,000 on a campaign, and his third-party contributor agreed to spend $200,000. The U.S. participant spent only 75 percent of his agreed-to amount, while the third party contributed nothing. For the five cases we reviewed, third parties contributed an average of only 32 percent of the $2 million agreed-to amount. While the participant in the example above reported an increase in overseas sales as a result of his campaign, neither he nor any of the participants in our sample evaluated what their sales could have been if the third parties had contributed their agreed-to amounts.

We recommended that FAS require U.S. program participants to assess the impact on marketing activities when third-party contributions are not received, and that FAS ensure that U.S. participants submit amended requests for significant decreases in their agreed-to amounts.

Tobacco Companies Defraud GSM 102/103 Programs

In North Carolina, eight tobacco companies were fined a total of $300,000 and agreed to pay up to $1.1 million in restitution to CCC after they pled guilty to filing false statements with USDA and the U.S. Customs Service in connection with the sales of tobacco to Egypt and Iraq. Our audit and investigation, which were conducted with the U.S. Customs Service, disclosed that six of the companies falsified their applications to CCC's Export Guarantee Program by including approximately $1.6 million of After-Sales-Service Agreements or rebates in the port value of the tobacco sales reported. The other two companies imported tobacco and then shipped the foreign tobacco to those countries, representing the tobacco as U.S. domestic in order to qualify under the GSM 102/103 Programs. Our review disclosed that less than 20 percent of the tobacco exported was produced domestically by these two companies.

SCIENCE, EDUCATION AND ECONOMICS

NATIONAL AGRICULTURAL STATISTICS SERVICE (NASS)

Average Price Data Used for 1988 Deficiency Payments Resulted in Excessive Payments of $187 Million

NASS collects data on prices received by cotton farmers and determines the national average market price received by cotton farmers during the marketing year. This information is used by ASCS to compute the deficiency payment rate for upland cotton. We reviewed the average price data collected from cotton cooperatives and found that NASS did not have sufficient administrative controls to ensure the receipt of accurate market sales data from cooperatives. The cooperatives reported estimated "sale" prices that had already been adjusted for some costs unrelated to the purchase of the commodity. The understated price estimates contributed to excessive ASCS cotton deficiency payments totaling about $23.2 million made to farmers for 1988.

We also found that NASS' price reporting instructions provide for the deduction or omission of price support benefits received by cotton and rice farmers from the ASCS marketing loan program or from the alternative loan deficiency payments. Therefore, the average prices determined by NASS understate the amounts actually received by these farmers. ASCS' use of the average price computed by NASS resulted in overstated deficiency payment rates and payments. If NASS had included the price support benefits in its average price determinations, the 1988 deficiency payments to cotton and rice farmers would have been reduced by about $115.7 million and $48.2 million, respectively.

We recommended that NASS establish controls to ensure that buyers report accurate marketing data and that NASS coordinate with ASCS to adjust average price data for loan deficiency and marketing loan program payments. NASS agreed to improve data collection procedures and to seek a policy decision on adjusting average price data to include the price support payments.

EXTENSION SERVICE (ES)

ES provides the Nation with information, instruction, and practical demonstrations on the applications of research and improved technologies to farming, nutrition, home economics, and community development. The work is carried out largely by State and county extension offices and supported through grants to land-grant colleges and universities. The FY 1990 appropriation for ES activities was $369.2 million.

1890 Extension Facilities Program

Under the 1890 Extension Facilities Program (EFP), ES provides funding to 1890 land-grant institutions and Tuskegee University for the purchase of equipment and land, and the construction or alteration of buildings to conduct extension work.

For FYs 1988 through 1990, a total of $28.4 million had been appropriated for EFP. We audited the program early in its administration to determine whether ES management procedures and internal controls would provide reasonable assurance that these expenditures would benefit State extension activities.

Our audit disclosed that: (1) ES' controls did not provide for adequate monitoring of activities and would not prevent or detect misapplication of funds by the recipients; (2) ES was not obtaining assurance from institutions that nonprocurement participants (architectural, engineering, and construction firms) had not been debarred or suspended.

We recommended that ES establish appropriate internal controls to address these issues. ES officials agreed to monitor program activities beginning in FY 1991 and to develop a structured site review program. They also agreed to develop an administrative handbook describing policies and procedures for all aspects of EFP activities.

FARMERS HOME ADMINISTRATION (FmHA)

FmHA operates Federal loan programs designed to strengthen family farms, finance new and improved rural housing, develop community facilities, and create and maintain rural employment. As of June 30, 1990, over 1.1 million borrowers owed FmHA about $52.3 billion. In addition, FmHA has guaranteed loans totaling $5.2 billion made by private lenders to 37,000 borrowers. The agency administers its programs through the national office and a network of 46 State offices, 264 district offices, and 1,904 county offices.

Controls Over the Emergency Loan Program Continue To Need Improvement

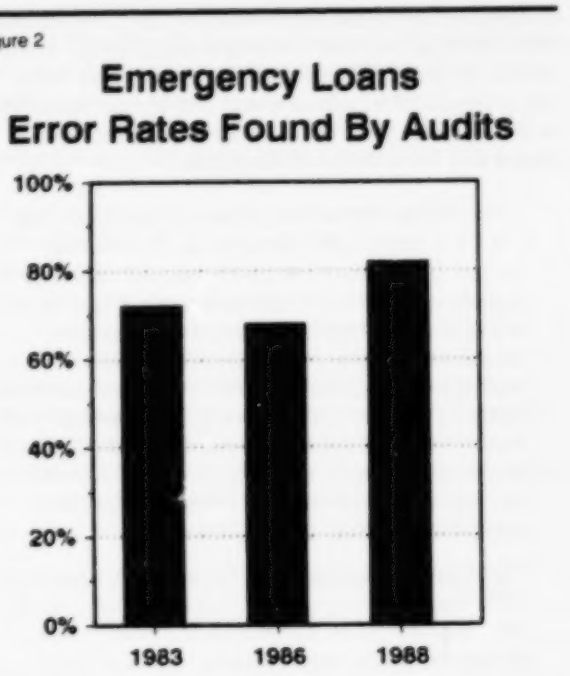
We performed a review of the Emergency (EM) loans made due to the extensive crop damage throughout the country caused by severe drought and other natural disasters in 1988. Qualified applicants could receive loans equivalent to their maximum losses or $500,000, whichever was less, at an annual interest rate of 4.5 percent.

We examined the controls used to determine borrower eligibility and procedures used to make loss calculations. We reviewed 71 loans, totaling $2.1 million, in 18 county offices in 4 States. Nationwide, EM loans for FY 1989 amounted to approximately $73.5 million. Our review disclosed that controls were not adequate to ensure that loans were made only to eligible farmers in correct amounts. We found that county offices approved 43 borrowers for excessive loans totaling over $600,000. We reported similar error rates related to excessive EM loans in prior audits. (See figure 2.)

The excessive loans were granted because FmHA county officials had not: (1) determined borrowers' disaster or normal year acreages and yields properly, (2) reduced the loan amounts by the borrowers' ASCS and Federal Crop Insurance Corporation (FCIC) disaster benefits, (3) deducted harvesting costs which were not incurred when crops were completely destroyed, and (4) developed feasible repayment plans.

Also, FmHA had not coordinated with ASCS sufficiently to ensure that loan amounts were computed correctly. We found 42 cases where FmHA personnel had not received or not used complete records of acres, yields, or benefits from ASCS. In addition, current law requires

Figure 2



FmHA to use average monthly market prices to compute loss amounts; however, we found that these prices were not always used.

We also determined that the national office had not ensured that FmHA State officials: (1) used the EM loan assessment teams, (2) had prepared unit price lists for loss calculations correctly and in a timely manner, and (3) had prepared crop yield supplements for loss calculations, as required. In addition, the national office had not conducted any special field assessment reviews of State loan activities nor updated training materials or monitored the States' training activities.

We recommended that FmHA review States' EM action plans, update the EM loan training package, conduct field assessment reviews of the States, require States to prepare and issue price and yield State supplements in a timely manner, and develop a loan-processing checklist to ensure proper loan processing. In addition, we recommended that FmHA review and revise its Memorandum of Understanding with ASCS to ensure proper coordination. FmHA has initiated corrective actions.

Loanmaking and Servicing Determinations Did Not Consider the ASCS Conservation Reserve Program (CRP)

Controls were insufficient to ensure that FmHA county office staffs considered borrowers' participation in the ASCS 10-year CRP when making or servicing loans. We reviewed all 97 cases where FmHA borrowers had land enrolled in the CRP in 13 selected counties in 2 States and found errors in 82 cases.

- Only 1 of the 13 FmHA county offices visited had obtained lists of CRP participants from ASCS. Further, Farm and Home Plans did not reflect CRP payments for 15 of 18 borrowers who received new loans, or for borrowers whose debts had been restructured or were being considered for restructuring. Additionally, FmHA had not obtained Farm and Home Plans showing CRP participation from 67 other active borrowers. Revised Farm and Home Plans were required in all cases because the borrowers were considered to have made major adjustments in their farming operations.
- FmHA personnel had not obtained assignments of CRP payments from 14 of the 16 borrowers who received new loans and from 8 of 10 borrowers whose debts had been restructured. As a result, FmHA had not properly considered the impact of the cash flow from assignments in the restructuring and loan approval actions.
- CRP contract values were not reflected in 3 of the 10 farm real estate appraisals reviewed. Methods for including CRP contract values in real estate appraisals differed in the two States visited. The national office had not issued instructions to ensure that field offices use a uniform and acceptable method of valuing CRP contracts in loan appraisals. This could result in inequities in appraisal values for farms enrolled in CRP and involved in debt restructuring.

We recommended that FmHA clarify instructions to: prevent a recurrence of servicing deficiencies reported; require FmHA supervisory personnel to provide more oversight to the county offices' in working with borrowers participating in the CRP; and ensure that CRP contract values are handled consistently on property appraisals. We also recommended that FmHA develop procedures to require assignments of CRP payments as a condition of debt restructuring.

FmHA officials obtained an opinion from the Office of the General Counsel concerning the assignment of CRP payments. According to these officials, that opinion stated that current FmHA regulations did not authorize the assignment of CRP benefits as a condition of debt restructuring. The opinion states further that, in order for FmHA to be able to require assignments as a condition of debt restructuring, FmHA would have to go through the rule making process in the Federal Register. We believe this action is necessary and we are continuing to work with FmHA to reach agreement on this matter.

Improved Supervision of Rural Rental Housing (RRH) Projects Could Reduce Borrower Fund Misuse

To ensure that RRH borrowers do not charge unnecessarily high rents, FmHA reviews the borrowers' accounts periodically for questionable activity. We reviewed the records of seven projects in one State that had cash balances in excess of FmHA requirements. We found four projects with improper transactions and two with unauthorized withdrawals of over $160,000. One of these cases is currently under investigation.

Problems with borrower accounts existed generally because FmHA limited its management reviews to ensuring that borrower loan repayments were made in a timely manner and that attempts were made to fill apartment vacancies immediately. FmHA did not conduct reviews intended to identify borrowers who used project funds without authorization, projects with cash balances in excess of reserve requirements, or projects receiving unnecessary interest credit.

We recommended that the State office perform and document reviews of project financial records and take appropriate corrective actions, including cancellation of unneeded interest credit agreements, return of funds used for unauthorized purposes, and application of excess funds to the FmHA loan.

The borrower undergoing investigation has returned approximately $72,000 of the funds. FmHA expressed agreement with the findings and recommendations in the report. We are working with State office officials to obtain corrective action on the individual cases.

Controls Over Construction of RRH Projects Were Not Enforced

We evaluated controls over loan approvals and use of loan funds and borrowers' compliance with terms of loan agreements and regulations during the construction phase of RRH projects in one State. We placed particular emphasis on loans where borrowers had an identity of interest with construction companies. Identity of interest occurs when a company or enterprise owned by an RRH borrower is paid with RRH loan proceeds for loan-related work.

From October 1, 1986, through February 28, 1989, loans totaling $60 million were closed for 77 RRH projects in this State. Borrowers reported identities of interest with affiliated construction companies that built 61 of the projects, with loans totaling about $45.6 million. We reviewed five of these projects, which had loans totaling $4.4 million.

We found excessive costs charged to each of the five projects during their construction. These costs resulted in excessive loan disbursements of $361,000, or 8.2 percent of the total loan amounts. The excessive amounts included inflated builders' profits, obligations incurred without FmHA approval, and costs which were borrowers' liabilities not subject to loan reimbursement. Over the 50-year life of the loans, additional interest subsidies on the excessive loan funds could cost the Government about $1.4 million. The excessive loan amounts also increase the projects' operating expenses (debt service costs) that will be passed on to low-income tenants and to the Government in the form of increased rents and rental assistance over the life of the loans.

Because the State office did not monitor construction costs adequately, developers charged ineligible costs and retained excess profits. The State office did not: review developers' cost accounting systems and trade-item construction cost breakdowns adequately; obtain contract change orders for significant variances from scheduled costs; and did not fully review construction cost audits. Cost containment measures could be implemented if the State office compiled sufficient data on development costs and fees to establish reasonable and customary costs for comparison purposes when reviewing project costs. FmHA is in the process of implementing some of our recommendations and we are working with them to reach management decision on the others.

Controls Over Intermediary Relending Program (IRP) Need Strengthening

The IRP provides financing to business and community development projects to create or save jobs in rural areas. Recipients must provide at least 25 percent of the project cost. Funding for the IRP totaled $28 million for FYs 1988 and 1989.

We conducted reviews at six intermediaries in five States and found that FmHA and intermediaries did not always process loan applications correctly or determine eligibility and disburse funds properly. FmHA did not always obtain required eligibility certifications from intermediaries or recipients. Of the $6 million in loans reviewed, loans totaling over $700,000 were approved, in our opinion, for recipients who were not eligible.

We recommended that FmHA monitor State offices' supervision of the program more closely and that training be provided to personnel. We also recommended that FmHA consult with the Office of the General Counsel to determine if these six loans totaling about $700,000 should be accelerated. We are working with FmHA to achieve management decision on this audit.

Business and Industrial (B&I) Loan Program

Commercial lenders make B&I loans to eligible borrowers and FmHA guarantees up to 90 percent of the loan principal and interest. The objectives of the B&I Loan Program are to develop, improve, and finance business and industry; create employment opportunities; and improve the overall economic climate in rural communities. The program is also intended to bolster the existing private credit structure through the guarantee of quality loans which will provide lasting community benefits. The program is not intended to finance business enterprises that do not appear to have a reasonable chance to succeed.

Improper Loanmaking and Lender Monitoring Result in Questionable Loans and Losses

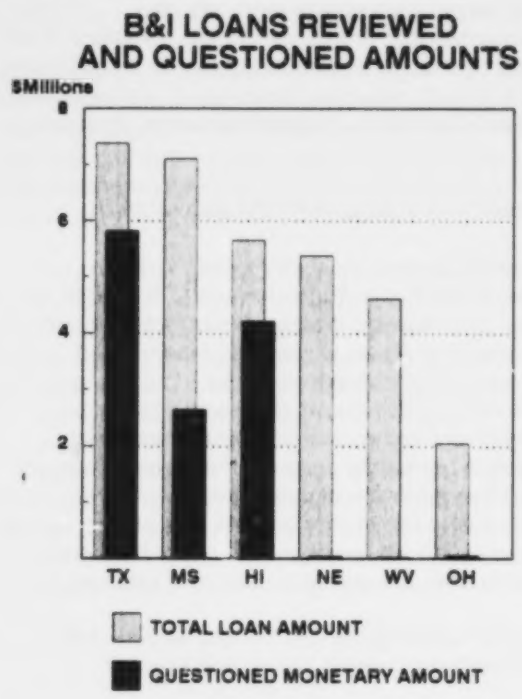
We examined the controls developed by the FmHA National Office over the loanmaking process and tested the effectiveness of these controls by reviewing a sample of 18 recently approved B&I loans in 6 States. Of the 18 guaranteed loans we reviewed, we questioned one or more actions by State offices in approving 14 of the loans. In all instances, these actions increased the risk of loss to the Government. Figure 3 illustrates the monetary impact of each of the six States' questionable actions.

Among the problems we noted were:

- Regulations require that the borrowers contribute cash or tangible earning assets to the business, and that this contribution (equity) be reflected on the balance sheets. Of the 18 borrowers reviewed, in our opinion, 4 with loans of $11.4 million did not meet the minimum 10-percent equity requirement to be eligible for loan guarantees.

  When we subtracted the intangible, nonrevenue-producing assets (e.g., preoperating costs) from the balance sheets of two of these borrowers, their contributions were less than 10 percent (one of these borrowers had a negative equity). The other two borrowers submitted questionable financial statements which FmHA should not have relied on in determining loan eligibility. At the time of our audit, two of these borrowers, with B&I loans of $5.8

Figure 3



million and $2 million, were in bankruptcy and liquidation.

- State offices had not always ensured that loan funds were used only for eligible purposes. The State offices guaranteed $2.8 million that was used to refinance five borrowers' previously existing unguaranteed debts with the lenders, thus transferring the risk of loss to the Government.

- State offices did not always obtain required feasibility studies and collateral appraisals. In one instance, a feasibility study was not required although the borrowers' financial statements showed that the enterprise was losing money continuously.

We recommended that FmHA strengthen its internal controls over the loanmaking process, revise regulations, and provide guidance to the State offices to prevent problems in the future. We are working with FmHA to reach agreement on a corrective action plan.

In addition to our audit of FmHA's loanmaking procedures, we performed three audits of lender servicing. These audits disclosed the following:

- On June 22, 1978, FmHA agreed to guarantee a $3.5 million loan to a borrower to construct a hotel. On July 10, 1986, FmHA purchased the guaranteed portion from the lender for $2.7 million. The lender subsequently submitted a report of final loss showing that FmHA's loss amounted to $3.4 million.

  An appraisal of the property dated April 4, 1988, stated that the facility was in fair to poor condition and needed major roof repairs. FmHA and the lender made seven inspection visits to the hotel from May 1988 through September 1989 and noted continuous deterioration of the facility due to water damage. However, the repair of the roof did not begin until over 17 months after disclosure of the problem. As a result, the liquidation value of the property decreased from $1.4 million in March 1988 to $857,000 by June 1989. The property was sold for $700,000, in February 1990.

  In our opinion, the servicing provided by the lender did not protect the collateral securing the loan. Consequently, we recommended collection of $700,000, the amount of deterioration caused by the lender's negligent servicing. FmHA disagreed and maintains that the lender's servicing was reasonable and prudent. We are working with the agency to reach agreement on this matter.

- On January 11, 1979, FmHA guaranteed 90 percent of a $20 million loan made to a textile company by a commercial lender. In August 1987, the textile company became delinquent on the loan. FmHA holds the entire outstanding guaranteed portion of the loan of approximately $15 million, with interest accruing at the rate of $3,609 per day until the loan write-off process is completed.

  We found that the lender did not obtain a proper lien position securing collateral prior to the loan closing. In 1976, 3 years before FmHA guaranteed the loan, another party had already secured a first lien position on over $76.9 million of the same collateral. There was no assurance that any remaining collateral would be sufficient to cover FmHA's loan guarantee.

  FmHA did not refer the loan to the Office of the General Counsel until September 1989, although it carried the loan in a delinquent status since August 1987. Due to the delays, as of January 8, 1990, the costs to the Government had increased by over $4.3 million due to accrued interest.

  FmHA asserts that the lender's actions were acceptable. We are working with FmHA to ensure future compliance with loanmaking and servicing

procedures and are continuing to pursue the matter of recovery of $14.7 million in losses paid to the lender.

- We reviewed a B&I loan totaling $5.8 million that was 90-percent guaranteed by FmHA. The borrower went bankrupt 13 months after the final loan disbursement. The final loss claim submitted by the lender was for over $9.6 million.

  Our review disclosed that FmHA should not have made the guarantee because the security value of the pledged assets was highly questionable. An independent appraisal had been performed in conjunction with the borrower's initial application for FmHA guarantee showing the value of the collateral to be $4.7 million. This loan application originally was rejected by FmHA. However, the borrower reapplied for program assistance and submitted the original appraisal but with significantly increased asset values purportedly worth over $10 million. Despite the lack of an independent appraisal for the second application and the lack of support for the values cited, FmHA approved the loan guarantee. Due to FmHA's improper handling of this loan, we could not make any recommendations which would result in the recovery of any of the $9.6 million in losses.

Borrower Sent to Prison for Assaulting FmHA Employees

Legal action has been completed against a borrower in Mississippi who was indicted for assaulting two FmHA county employees while the employees were conducting an official appraisal. The borrower was sentenced to 30 months in prison and ordered to pay restitution of $3,800 after he pled guilty to charges of assaulting a Federal employee and making false statements to the Government. The borrower and his wife underreported their income to FmHA to obtain an interest credit subsidy on an FmHA-financed house. The wife also pled guilty to making false statements to FmHA. She was ordered to pay $1,000 restitution and was placed under house detention for 1 month.

Farmers Charged with Converting FmHA Collateral

- In Oklahoma, a father and son were indicted for conspiracy, conversion of FmHA collateral, and money laundering. The indictment alleged that the two farmers illegally sold 355 head of cattle, valued at over $144,000, which were mortgaged to FmHA. The father was also charged with money laundering for using approximately $60,000 of the proceeds of the cattle sales toward the purchase of a farm and a tractor. The indictment included a proposal for the forfeiture of property derived from the proceeds of the conversion. This was the first use of the money laundering and criminal forfeiture statutes in relation to the conversion of FmHA collateral. Trials are pending.

- In California, a farmer was sentenced to 3 years in prison and ordered to pay $217,000 in restitution to FmHA after he pled guilty to conversion of FmHA collateral. He also pled guilty to violating the Currency Transaction Reporting Act. Our investigation disclosed that the farmer sold over $217,000 in crops which were mortgaged to FmHA. He tried to conceal the conversions through a series of bank transactions, including the negotiation of numerous personal checks in the amount of $9,900 each. He admitted that he negotiated the checks in that amount because the banks were required to report all cash transactions in excess of $10,000 to the U.S. Treasury Department.

- A farmer in North Carolina was fined $5,000 after he pled guilty to converting over $680,000 in FmHA collateral. In the plea agreement, the farmer acknowledged that he sold federally mortgaged farmland for approximately $2.2 million to 46 individual land purchasers. These purchasers would have lost their homes and investments if FmHA had had to assert its claim to the land, but the farmer repaid all investors after he became aware of our investigation. He has agreed to repay FmHA and the Federal Land Bank his remaining debt of approximately $450,000.

FEDERAL CROP INSURANCE CORPORATION (FCIC)

FCIC is a wholly owned Government corporation created to provide a system of crop insurance for farmers. In 1980, the crop insurance program was revised to require that premium rates be set so the subsidized premium would cover indemnity costs and provide for a reserve. The program changes were designed to increase participation. However, while participation has increased, it has never reached the intended level. The program has never been actuarially sound and, between FYs 1980 and 1988, crop insurance cost the Government $4.3 billion.

Coverage Not Established on an Actuarially Sound Basis

The Federal Crop Insurance Act of 1980 expanded coverage to include all commercial crops in all agricultural counties, but also required FCIC to provide this coverage on an actuarially sound basis. FCIC made a policy decision in January 1989 to insure

cotton, rice, wheat, soybeans, and feed grain crops in all counties in the United States where grown. Our review of operations at one underwriting office disclosed that some crops were insured in areas where the soil or climate was not suited for production of the crops. For example, grain sorghum coverage was provided for 6 years in a county that lacked suitable soil to grow sorghum. Cotton was insured in two counties where the climate was too cool for cotton. Also, cotton was insured in a Midwestern State where cotton historically was not known to be a viable crop. In these instances, indemnities paid exceeded premiums received by about $1.1 million. FCIC officials have agreed to reevaluate the rate structure for the identified cases.

$1.2 Million Fine for False Insurance Claims

A grape farmer in California was fined about $1.2 million for filing false claims with the FCIC. The fine was levied after a civil trial determined that the farmer inflated his insurance claims to FCIC in 1982 and 1983 by understating his grape production and overstating his crop losses. The inflated claims resulted in approximately $400,000 in overpayments by FCIC. The judge ordered triple damages as the penalty, which is the maximum amount allowed under the civil False Claims Act.

False Crop Insurance Claims Send Farmer to Prison

A farmer in Mississippi was sentenced to 1 year in prison and ordered to pay $590,000 in restitution after he pled guilty to submitting false insurance claims to the FCIC. The farmer was indicted previously for falsifying his insurance claims by underreporting his harvested soybean production from 1985 to 1987 and his harvested wheat production in 1986 and 1987, thereby receiving approximately $590,000 that he was not entitled to receive.

RURAL ELECTRIFICATION ADMINISTRATION (REA)

Electric Cooperative Manager Jailed for $2.7 Million Scheme

Legal action has been completed against the former general manager of an electric cooperative in the State of Washington who pled guilty to conspiracy, mail fraud, and racketeering. The manager was sentenced to 3 years and 1 month in prison, fined $50,000, and ordered to pay the cost of his incarceration, estimated to be about $18,000 per year. Our investigation disclosed that, over a 7-year period, the manager fraudulently directed $2.7 million of the cooperative's REA-financed construction work to a company in which he and his wife had a secret financial interest.

FOREST SERVICE (FS)

The FS manages over 191 million acres of National Forest System lands, conducts a State and private forestry program, and provides national leadership in forest and range research. In FY 1990, the FS appropriation was $3.2 billion and timber sales and other receipts are estimated to exceed $1.6 billion.

Improvements Needed in the Collection of Timber Sale Default Claims

From 1982 through September 1989, purchasers of FS timber have defaulted on 2,199 timber sales contracts, involving 3.4 billion board feet, with a contract value of about $600 million. For this same period, the FS assessed purchasers $294 million in damages and collected about $24 million. While the FS has made an effort to target default claims with collection potential, total collections have been limited because purchasers either had insufficient assets, had filed for bankruptcy, or had appealed the FS' damage claims. We reviewed the controls established by the FS for processing and collecting such claims and concluded that the FS needs to improve its efforts in the following areas:

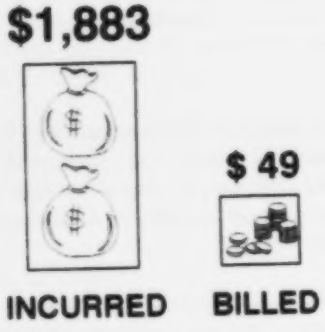
- The FS needs to have an effective system for billing purchasers for the administrative costs related to the processing of delinquent default claims. Although the Debt Collection Act requires Federal agencies to assess these costs, current FS procedures are not clear on how to recover these costs. Our review of 143 delinquent claims showed that the FS had not billed delinquent purchasers approximately $270,000 in estimated administrative costs, 97 percent of all administrative costs incurred on these 143 claims.

- Purchasers are required to make advance deposits or provide for performance bonds up to 10 percent of the bid value. We found, however, that the FS needs to develop a timber sale performance bond to ensure that bondholders are liable for the penal sum of the bond at the time of default, and for interest, penalty, and administrative costs if that sum is not paid at the time of default. The current bond language is unclear as to the limits regarding the bondholder's appeal rights when a purchaser defaults, and to the payment of interest, penalty, and administrative charges on delinquent bondholder payments. In January 1989, the FS drafted a new performance bond in an attempt to resolve these ambiguities, but the proposed revisions received strong opposition from the surety and timber industries. As of September 1990, the FS had not adopted the proposed revisions. Our audit disclosed that as of January 1989, the FS had collected only $11.2 million of the $23.5 million in performance bonds owed by bondholders. In response to our audit, the FS has requested an opinion from the U.S. Comptroller General regarding the charging of interest, penalties, and administrative costs on delinquent default claims.

- The FS needs to clarify its procedures regarding the proper disposition of collections from default claims. Default claims of approximately $8 million collected in one FS region were deposited generally to the U.S. Treasury instead of the National Forest Fund as required. The National Forest Fund provides 25 percent of its receipts to States where the timber was sold, for funding schools and roads. Similar problems also occurred in another region. This could result in reduced revenues to the affected States.

Figure 4

ADMINISTRATIVE COSTS AVERAGE PER CLAIM



FS bills an average of 3 cents for every $1 of Incurred Administrative Costs.

Brush Disposal Funds Retained Improperly by Some Regions

The Brush Disposal Act authorizes the FS to collect funds to cover the cost of disposing of brush and other debris resulting from cutting operations. During timber sale preparation, the FS fire management staff completes a brush disposal plan which outlines what work must be conducted to reduce the fire hazard created by timber harvest residues, or "slash." The amount to be collected is specified in the timber sale contract. The act also requires that any funds deposited in excess of the amount spent on disposal will be transferred to the U.S. Treasury's Forest-Reserve Fund.

Unspent brush disposal funds increased from approximately $101 million as of September 30, 1985, to almost $141 million as of September 30, 1989. Over the same period, expenditures increased from $37 million to $55 million.

We evaluated the FS' controls over determination of fund balances and transfer of excess balances. Our audit disclosed that these controls were not adequate. As a result, national forests in two regions retained $1.9 million improperly in identified excess funds and understated excess funds by another $2 million. We concluded that retention of these funds was not in accordance with the act.

Additionally, our audit found that the FS collected and spent over $800,000 in brush disposal funds for various equipment development and technology projects during FYs 1988 and 1989. We concluded that these projects were not authorized by the act and should have been funded from other programs. We recommended that the FS obtain an opinion from the Office of General Counsel regarding the property of using brush disposal funds for these purposes.

We also recommended that the FS establish procedures to ensure uniform and reliable analyses of brush disposal needs, collections, and fund balances. FS officials agreed with our recommendations and have developed corrective action plans.

Controls Over FS' Microwave Communication Systems Development Need Strengthening

Since FY 1980, the FS has been developing microwave communication systems to help detect and suppress forest fires. As of April 6, 1989, the FS had a total of 56 of these systems located in 7 of the 9 FS regions, with estimated total costs of about $31.7 million. Thirty-two of the fifty-six systems had been completed.

Our review identified that FS' internal controls over the development, installation, and operation of the systems were inadequate. Specifically, we found the following:

- Systems were being operated without authorization by the National Telecommunications and Information Administration (NTIA). NTIA could order these systems shut down, or if frequency conflicts arose, retuned which would be a great expense.
- Microwave equipment had not been recorded in inventory records or identified with tags. Consequently, microwave equipment valued at about $415,000 was not accounted for properly and was subject to possible loss or misuse.
- Safety and security deficiencies existed at 11 of the 13 microwave sites we reviewed.
- The FS had no formal operating procedures to prevent avoidable interruptions of critical system communications during emergency conditions.
- Fifteen of the fifty-six systems were at least 2 years behind completion schedule. The FS could save about $148,000 per year if these facilities were completed.

FS officials agreed with our findings and recommendations and have initiated corrective actions.

FS Needs a System To Reconcile and Verify Minerals Receipts

The Bureau of Land Management, an agency of the Department of the Interior (DOI) issues permits, with FS consent, for mining on National Forest System lands. The Minerals Management Service (MMS), also an agency of DOI, collects the revenues for these activities. Monies collected by MMS for mining activities are transferred to the appropriate FS Treasury accounts on a monthly basis. The FS provides 25 percent of the revenues collected by MMS to States and counties where mining activities are located.

Our review of the accounting procedures in two regions disclosed that the FS did not have a system to reconcile payments received from MMS or to verify that amounts due were received. This situation occurred because the Memorandum of Understanding between the MMS and the FS did not require the MMS to submit the data to the FS in a form that was easily reconcilable, or to provide copies of the accounting data needed to confirm that all amounts collected on FS-acquired lands were paid. In addition, the MMS did not provide payment data so FS field offices could

verify that payments received from the MMS were credited to the correct leases.

We recommended that the FS revise the Memorandum of Understanding so that sufficient data is provided to reconcile minerals receipts. The FS agreed that a comprehensive Memorandum of Understanding needs to be developed to provide revenue and production data on mineral leases, on public domain and on acquired lands.

SOIL CONSERVATION SERVICE (SCS)

SCS administers several major programs designed to help individuals, groups, organizations, and State and local governments protect and improve conservation of land and water resources. SCS' activities are carried out in two basic areas: conservation operations, and watershed and flood prevention operations. For FY 1990, funds appropriated and received from other sources for SCS operations totaled more than $803 million.

Food Security Act Conservation Provisions Not Implemented Adequately

The Food Security Act of 1985 requires agricultural producers to implement certain soil and wetland conservation practices to remain eligible for USDA farm programs. One provision of the act requires each producer with highly erodible land to have obtained an approved conservation plan through the SCS by December 31, 1989, and "actively apply" the plan over the next 5 years.

We reviewed 105 conservation plans from 11 SCS field offices in 7 States. Our audit disclosed that SCS procedures were not specific enough to ensure that conservation plans clearly described the "what, where, when, and how much" of the conservation activities expected from the producers. Of the 105 plans we reviewed, 98 did not provide sufficiently detailed information. Producers were unsure of how and when they must act to comply with the plans.

Additionally, the plans were not designed to provide reviewers with measurable criteria for assessing whether the producers complied with the plans. The internal reviews could not ensure that all plans met minimum requirements and that deficient plans were identified and corrected.

We recommended that the SCS determine and establish the controls needed to accomplish the conservation objectives of the act. We are working with the agency to achieve management decision on the audit.

MARKETING AND INSPECTION SERVICES

FOOD SAFETY AND INSPECTION SERVICE (FSIS)

Labeling Policies and Procedures Result in Inconsistencies and Some Misleading Claims

The Federal Meat and the Poultry Products Inspection Acts require that meat and poultry products sold in interstate commerce be wholesome, unadulterated, and marked, labeled, and packaged properly. FSIS approves product formulas and labels to ensure that the products conform to established standards for quality, identity, and composition.

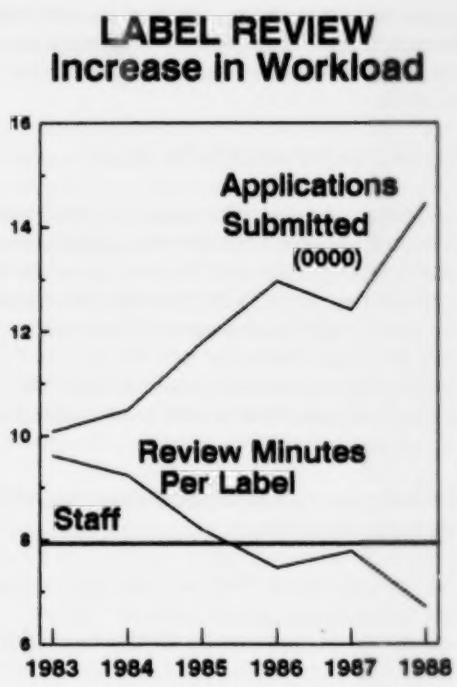
We evaluated the management of the label-approval process. We reviewed the product claims and approvals on 408 judgmentally selected labels and questioned 107 of them. We found that some formulas or product names were inconsistent with standards, some applications did not provide sufficient documentation to assess compliance with labeling standards, and some approved labels did not list ingredients in correct order, omitted significant ingredients, or contained misleading declarations.

We attributed the errors, in part, to a lack of second-party reviews before the labels were approved and to recent increases in both the number and the complexity of label applications. FSIS had 8 label reviewers who reviewed over 700 applications daily in FY 1988. Although the staffing level has remained constant, the number of label applications increased from about 100,000 in FY 1983 to over 144,000 in FY 1988. The average time available to review each label application declined from about 10 minutes in 1983 to about 6.7 minutes in 1988.

The complexity of labeling policies and product claims has also increased, yet FSIS does not promote specialization among the label review staff. Reviewers are required to maintain a working knowledge of all meat and poultry labeling standards and policies.

We also found that FSIS did not ensure that heat-processed products containing both meat and poultry were cooked to a safe temperature. FSIS requires minimum cooking temperatures of poultry products because of the high incidence of salmonella in undercooked poultry. However, FSIS classifies any product which contains more meat than poultry as meat products and does not require them to meet standards for poultry products.

Figure 5



In addition, FSIS did not verify or enforce compliance with nutrition or other health-related claims on labels. FSIS required producers to substantiate nutrition claims through laboratory analyses, but did not require compliance when variances occurred. Also, FSIS approved some health-related claims based on testimonial evidence submitted by producers, but had neither authority nor procedures to validate the claims.

We recommended that FSIS improve controls over labeling and ensure that products containing poultry are processed safely. We further recommended that FSIS verify and enforce all claims associated with the USDA inspection legend. FSIS officials responded that label reform was one of the agency's major areas of emphasis for FY 1990, as redirection was needed to keep pace with new technology, changing consumer expectations, and emerging health concerns.

Companies and Officers Charged With Meat Inspection Violations

- In Iowa, two affiliated meat-processing companies, four officers, and two employees were indicted by a Federal grand jury for conspiracy, wire fraud, and several violations of the Federal Meat Inspection Act. The indictment alleged that the defendants, acting in a conspiracy and with intent to defraud, sold over 3 million pounds of misbranded meat food products during a 4-year period, and that the labeling showed the products had been graded, although they had not been. In addition, the quality control supervisor of one of the plants was charged with causing tainted, sour, and putrid meat products, which had been returned to the plant, to be reworked and reprocessed without benefit of examination by a USDA inspector. Trials are pending.

- In Missouri, a meat-processing company, its co-owner, and its manager were indicted by a Federal grand jury for processing and selling adulterated meat. The indictment alleged that, over a 3-year period, the defendants added sodium sulfite, an unsafe food additive, to ground beef and Italian sausage in order to conceal damage or inferiority and to make the products appear to be of better quality than they actually were. Trials are pending. This investigation was conducted with FSIS compliance officers. In 1987, the company was fined $10,000 (of which $9,000 was suspended) and placed on 3 years' probation for selling uninspected meat. As a result of this investigation, the Federal judge revoked the probation and ordered the company to pay the $9,000.

- In Tennessee, two meat plant owners and a cattle buyer pled guilty to conspiracy to violate the Federal Meat Inspection Act. Our investigation disclosed that the owners processed unwholesome meat which they then placed into commerce. The owners admitted that they bought diseased and disabled cattle, processed them without USDA inspection, mixed the meat with inspected meat, and sold it as "USDA Inspected" meat to unwitting businesses and individuals. The cattle buyer admitted that he purchased the cattle for the plant owners to slaughter and sell. This investigation was conducted jointly with FSIS compliance officers. Sentencing is pending.

AGRICULTURAL MARKETING SERVICE (AMS)

Company Fined for Misusing USDA Inspection Tags

As a result of an investigation conducted with AMS compliance officers, a peanut company in Georgia was fined $100,000 by a Federal court in North Carolina after it pled guilty to violating the Agricultural Marketing Act. The company misrepresented 40,000 pounds of 1987 crop-year peanuts as 1988 crop-year peanuts by misusing official USDA inspection tags. The company removed 1987 official USDA inspection tags from the peanuts and attached 1988 official tags to represent the peanuts as having been inspected and graded as 1988 crop-year peanuts.

ANIMAL AND PLANT HEALTH INSPECTION SERVICE (APHIS)

Two Indicted for Smuggling Exotic Birds

In San Diego, California, two men were indicted for their roles in an international bird-smuggling operation linking Latin America, California, New Jersey, and New York. During the execution of search warrants at the homes of the two men, OIG agents seized a total of 180 exotic birds, including Mexican Amazon parrots, military and scarlet macaws, and Hispanol parrots. Some of these birds are endangered species and cannot be imported legally into the United States. Some of the other birds are not allowed to be exported from their native Mexico. Trials are pending. This investigation was conducted with APHIS investigators.

Veterinarian Charged With Switching Blood Samples

A USDA-accredited veterinarian doing work for APHIS under the Brucellosis Eradication Program has been charged in a Maryland district court with providing false blood samples and false reports. The veterinarian was charged with falsely representing which animals were the donors of blood samples submitted for testing by a USDA laboratory. Trial is pending.

EMPLOYEE INTEGRITY

Matters involving employee misconduct are a high priority for OIG. During the past 6 months, our investigations into serious employee misconduct resulted in 13 convictions of USDA employees and in 35 personnel actions, including removals, suspensions, and resignations. Following are examples of some of the actions taken against USDA employees during the past 6 months:

- **Collusive Bidding Scheme Results in Jail and Fines**

  Legal action has been completed against an FmHA assistant county supervisor who was indicted for participating in a collusive bidding and kickback scheme involving almost $100,000 in FmHA contracts. After pleading guilty and resigning from FmHA, the former employee was sentenced to 6 months in prison, ordered to pay $20,000 in restitution, and fined $4,000. His brother-in-law, who was a contractor involved in the scheme, pled guilty to conspiracy, theft of Government money, and passing a forged Government check. He was sentenced to 4 months' home confinement, and ordered to pay $21,000 in restitution and fines.

- **ASCS Employee Guilty of Computer Fraud**

  An ASCS administrative assistant, who resigned prior to our investigation, was sentenced to serve 5 months in home detention and ordered to pay restitution of $2,600 after she pled guilty to computer fraud. The former employee had been indicted for using her position with ASCS to create false computer records to obtain $2,600 in benefits from the 1988 Wheat and Feed Grain Program. Our investigation disclosed that the employee accessed an ASCS computer and created a history of prior years' farming by her husband so that he would be eligible for payments under the program.

- **Employees Plead Guilty to Bribery Charges**

  Legal action has been completed against six meat inspectors in New Jersey who were charged with accepting between $10,000 and $30,000 each from meat plant employees over a 12-year period. Five of the six inspectors have retired from FSIS and the remaining one resigned. Four of the inspectors pled guilty to conspiracy to adulterate and misbrand meat and to the acceptance of bribes or gratuities. The other two inspectors were found not guilty after a jury trial. The four who pled guilty were fined a total of $38,000 and were placed on probation. Two of the inspectors were also ordered to spend from 2 to 6 months in a halfway house.

  In California, a loan specialist for FmHA pled guilty to receiving bribes or gratuities in the form of cash, services, supplies, and a woodburning stove, in the total amount of approximately $6,500. In exchange for the gratuities, the specialist approved FmHA loans or financing by FmHA for persons who purchased homes. The loan specialist, who resigned prior to the investigation, was placed on 5 years' probation, to include 400 hours of community service.

- **Employees Plead Guilty to Embezzlement**

  In the State of Washington, a Forest Service purchasing agent, who resigned during our investigation, pled guilty to theft of Government property. Our investigation disclosed that the purchasing agent embezzled over $5,400 to sustain a gambling habit at a local bingo parlor and "kited" imprest fund reimbursement checks to cover previous months' vouchers, while showing current payments as being in transit to the National Finance Center. Sentencing is pending.

  A former employee of FmHA in New Hampshire was ordered to pay $2,300 in restitution and placed on probation after she pled guilty to embezzling money from FmHA. The employee, who resigned prior to our investigation, embezzled over $2,300 in cash and checks which were paid to FmHA as loan payments.

  A former APHIS animal health technician in Oklahoma was fined $500 and placed on probation after she pled guilty to embezzlement and misuse of a Government vehicle. The employee, who resigned prior to our investigation, was responsible for inspecting animal breeders and dealers under the Animal Welfare Act. Our investigation disclosed that she operated her own dog kennel, which she concealed under the name of her married daughter, and that she used the Government vehicle to transport the dogs which she sold from her kennel.

- **FmHA Employee Indicted for Bribery**

  In Florida, a former FmHA construction inspector is awaiting trial after being indicted for bribery. The indictment alleged that the inspector solicited and accepted $2,300 in return for being influenced in the performance of his official duties as inspector of construction projects for FmHA. During our investigation, the inspector was removed from FmHA under a reduction in force. This investigation was conducted jointly with the Federal Bureau of Investigation.

FINANCIAL, ADMINISTRATIVE AND AUTOMATED DATA PROCESSING SYSTEMS

USDA continues to focus attention on accountability and management control over its resources. Managers have increased efforts to improve debt and cash management activities, to strengthen internal controls over Departmental programs, and to increase security and control over automated data processing and financial systems. However, our current audits noted areas where corrective actions were necessary.

FINANCIAL MANAGEMENT

Improvements in ASCS/CCC's Collection System Could Save Over $2.6 Million Annually

ASCS/CCC's Concentration Banking System (CBS) allows funds deposited in financial institutions to be transferred electronically to a "concentrator" bank for same day deposit to CCC's account. In FY 1989, ASCS/CCC collections totaled approximately $9.2 billion, of which about $3.7 billion was processed through CBS, $3.1 billion was mailed directly to Federal Reserve Banks, and the remainder was deposited by other methods.

Our audit identified 677 ASCS county offices (CO) which did not have the dollar volume to establish a CBS and used no such system, but which could have taken advantage of the CBS of another USDA agency in the same locality. An additional 389 COs were identified which did have the dollar volume to establish a cash concentration system but did not do so. We estimate that ASCS/CCC could have realized interest savings of about $2.2 million through expanded use of CBS and through the use of other available cash concentration systems.

We noted several other weaknesses with the ASCS/CCC collection system. Deposits mailed to Federal Reserve Banks were not credited in a timely manner to ASCS/CCC's account. Also, deposits in local banks were not always withdrawn in a timely manner by the concentrator bank. By improving the efficiency of mailing deposits to Federal Reserve Banks, implementing procedures to monitor daily CBS account balances, and ensuring that deposits are transmitted in a timely manner, ASCS could save additional lost interest of over $400,000. ASCS officials are taking recommended corrective actions.

Internal Controls Over FmHA Acquired-Property and Field Office Collections Need Improvement

FmHA estimates that it saved about $10.6 million in FY 1988 from initiatives that it successfully implemented in its cash management system. Our audit showed that these initiatives were operating effectively. However, other areas selected for review disclosed the following:

- FmHA relied on county office personnel, without benefit of second party review, to collect, deposit, record, and report on cash sales of acquired property. County offices reported the property's selling price to the State office and the deposited amount to the finance office, but neither location received sufficient information to ensure that the selling price, less appropriate selling expenses, equalled the amount remitted to the Department of the Treasury. We did not identify any instances of unaccounted funds; however, this lack of controls over a highly vulnerable area such as cash sales of acquired property could result in fraud or abuse. During FY 1990, FmHA reported over $60 million in cash sales of acquired property and about $445 million of total acquired property sales.

- Real estate taxes paid by FmHA on acquired property were not always based on the current market value of the property. Currently, reassessments are not requested on properties where market values have decreased substantially. We found that FmHA's real estate tax liability could have been reduced by about 43 percent if tax assessments had been based on the current market value of the property. Agency records show that FmHA paid $9.1 million in rural housing property taxes in FY 1989.

- FmHA could improve the process of field office collections by standardizing procedures for the use of cash management reports. FmHA prepares reports which identify delays in field office deposits, but even though the State offices generally use the reports, there are no standardized procedures for their use in correcting and following up on deposit delays.

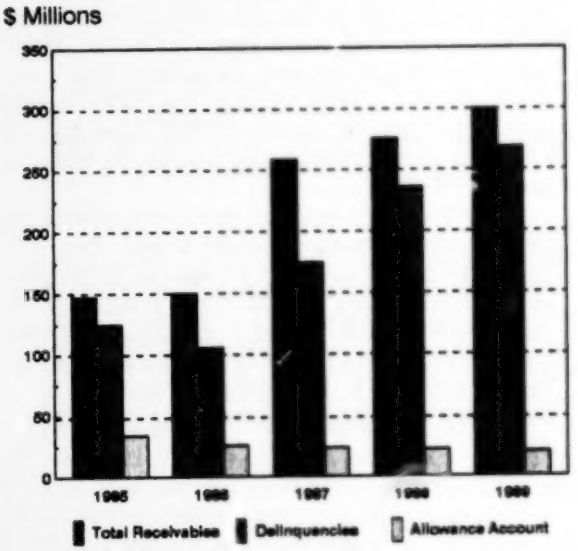
The Net Realizable Value of Forest Service (FS) Accounts Receivable Was Overstated by an Estimated $110 Million

The FS has not complied with certain debt and credit management standards set forth by OMB and Treasury. As of September 30, 1988, the FS reported to Treasury about 8,500 accounts receivable totaling $276 million, with a net realizable value of $252 million after deducting the allowance for uncollectible accounts.

Because the FS had not established specific procedures for recording, managing, and reporting accounts receivable, the FS' financial and management reports to OMB and Treasury contained material misstatements of the total of accounts receivable, their net realizable value, and collection status. The net realizable value of FS accounts receivable was overstated by an estimated $110 million because of an inadequate allowance for uncollectible accounts. FS had not established procedures to analyze and adjust its allowance for uncollectible accounts periodically. Figure 6 shows how the agency's provision for uncollectible debt has declined, while the total portfolio and the total amount of delinquencies have doubled.

Figure 6

Forest Service Accounts Receivable



Improvements Needed in the Office of International Cooperation and Development's (OICD) Financial Management Operations

From 1987 to 1989, OIG, the Office of Finance and Management (OFM), and a CPA firm issued four reports detailing problems with OICD's financial management operations. OIG followed up on the agency's actions to implement recommendations made in those four reports. We found that OICD made improvements in its financial management operations; however, significant weaknesses continue to exist:

- OICD has not billed, collected, and reported in a timely manner accounts receivable for prior years' activities. For example, OICD had not billed $7.3 million that was identified by OICD's task group on July 25, 1989, as receivables not billed for FYs 1980 through 1988. Also, as of October 4, 1989, $42.8 of the $61.7 million of OICD receivables were outstanding from 5 months to 12 years, and OICD had not pursued collection adequately.

- Overhead costs on OICD projects, other than those undertaken for the Agency for International Development, were not documented and consistently allocated. Also, the OICD cost accounting system did not budget and bill any reimbursable agreements based on actual costs of providing services. Therefore, there was no assurance that the $7.28 million in overhead charges for FY 1989 reflected all costs associated with the agreements.

We recommended that OICD promptly implement all recommendations made in the previous reports. Additionally, we recommended that OICD develop procedures for calculating, approving, and implementing overhead rates for all reimbursable projects. OICD concurred with our recommendations and is acting to implement them.

7,500 Discrepancies Found Between Federal Employee Health Benefit (FEHB) Enrollments and Carrier Records

One of OFM/NFC's functions is to maintain a database of enrollment information on the insurance plans selected by Federal employees in both USDA and other serviced Federal agencies. We performed an automated reconciliation between the NFC database and the records of three major FEHB insurance carriers and found 7,500 discrepancies.

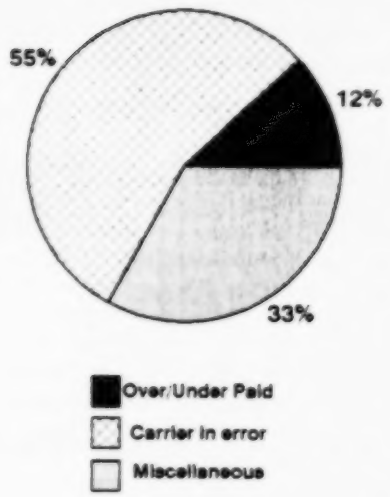
A random sample of 120 of the 7,500 discrepancies was drawn for review. Our analysis disclosed that in about 12 percent of these cases OFM/NFC either

overpaid or underpaid premiums to the carriers. For about 55 percent of the sample cases, the carriers' records continued to reflect coverage for individuals who had terminated their enrollment or were shown by the carriers as employees of agencies serviced by OFM/NFC but were not on OFM/NFC's database. The remaining discrepancies were caused by several factors, including incorrect Social Security numbers and payroll office numbers. Figure 7 shows the distribution of discrepancies.

Although the Federal Personnel Manual requires health carriers to reconcile their records with the payroll office records at least annually, two of three carriers we reviewed did not reconcile their records adequately. In addition, OFM/NFC was not always properly processing health benefit enrollment information received from the personnel offices. OFM/NFC also did not prorate employee withholdings and agency contributions, as required, when the employees changed payroll offices during the middle of a pay period.

OFM officials agreed with our recommendations to prorate withholdings. However, they did not concur with our recommendations that OFM/NFC officials resolve the discrepancies or perform periodic reconciliations to monitor carriers' performance. We are working with the agency on these matters.

Figure 7



Fund Transfers Between Agencies Delayed by an Average of 96 Days

The Department of the Treasury established the On-Line Payment and Collection (OPAC) System to standardize interagency billing and adjustment procedures through a telecommunications network. Under this system, a Government agency can obtain immediate payment for supplies or services provided to another agency by directing Treasury to transfer funds to them from the customer agency's account. During FY 1989, OFM/NFC processed OPAC transactions valued at $178 million.

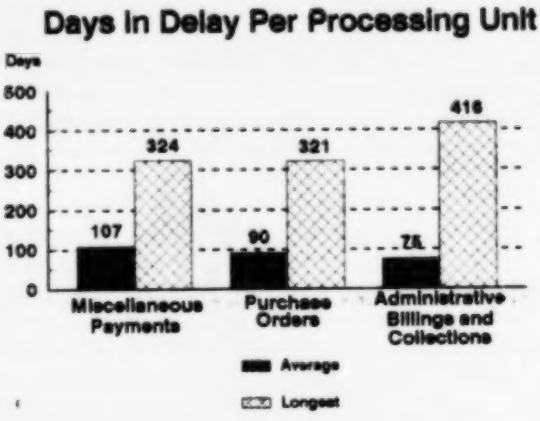
We found that OFM/NFC needed to process transactions received through the system in a more timely manner. Transactions in our sample were delayed from 7 to 416 days before processing to a specific user's account. The delays occurred largely because necessary accounting information on the transactions received through OPAC was missing. OFM/NFC personnel had to research each transaction manually to identify the proper agency and accounting codes. OFM/NFC could reduce the processing time for OPAC transactions by centralizing responsibility for OPAC processing, performing followup actions with agencies on a regular basis, and identifying agencies who fail to include complete accounting data and reporting them to Treasury. Based upon our sample, we projected the average delay to be 96 days.

We conducted reviews in three units at the OFM/NFC: Miscellaneous Payments, Purchase Orders, and Administrative Billings and Collections. Figure 8 shows the average delay in processing time for each unit and the longest delay.

In addition, controls were not in place to ensure that all OPAC transactions were accounted for each month or that a reconciliation of OPAC transactions with Treasury was completed in a timely manner. Currently, it takes approximately 5 months to reconcile the transactions of any given month. We also found that OFM/NFC had not modified Treasury's OPAC system so it could collect an estimated $55 million annually from customers of OFM/NFC-serviced agencies.

We recommended modifications and actions that would improve the effectiveness of OPAC at OFM/NFC and enable more timely allocations of charges to the appropriate agencies. OFM/NFC officials are taking corrective action on our recommendations.

Figure 8



Cost of Relocating Federal Employees Could Be Reduced

Public Law 98-151 authorizes Government agencies to enter into contracts to provide relocation services for agencies and their employees. Federal travel regulations authorize these services to employees who are required to relocate for the convenience of the Government and who are otherwise entitled to reimbursement of real estate expenses.

The most frequent and costly service used is the Guaranteed Home Purchase Program. The fee for using this program has risen from an initial 18 percent of the amount the contractor paid the employee for the home in 1986 to over 34 percent as of 1989. This fee could be reduced, however, if the employee found a qualified buyer offering more than the amount offered by the contractor. In this situation, the contractor would pay the employee the amount offered and charge the Government a reduced percentage of the offer amount.

To reduce the cost of this program, we recommended that OFM revise the departmental regulations and require or encourage relocating employees to market their homes for a minimum of 30 days before accepting an appraised value offer from the contractor. OFM agreed with the recommendation and has taken corrective actions. This audit was performed as part of a governmentwide review on behalf of the President's Council on Integrity and Efficiency.

AUTOMATED DATA PROCESSING

Additional Controls Needed Concerning Office of Information Resources Management's (OIRM) Use of Working Capital Fund (WCF) Operating Funds for Research and Development Activities

The National Computer Center (NCC) at Fort Collins, Colorado, spent about $5.5 million of USDA WCF operating funds to finance research and development (R&D) activities without specific approval of the NCC user agencies. The NCC-FCC made various presentations to the WCF Board and the agency senior IRM officials concerning the estimated costs of the R&D projects; however, actual expenditures were not accumulated or reported on and not all user agencies were aware of how much additional costs would be charged to them. Financing these R&D activities in such a manner results in increased costs to all users of NCC and is not in compliance with Federal guidelines for billing ADP costs. In addition, financing major R&D projects indirectly through rates being charged for use of the NCC could result in an inappropriate transfer of agency appropriated funds to the Departmental WCF.

Also, controls related to procurement and billing procedures needed to be improved. In one case, the Office of Operations awarded a $1 million contract as a small business set-aside contract without the approval of the Small Business Administration. In another case, NCC charged one major non-USDA user (paying about $3 million in annual charges) based solely on estimated costs rather than the actual costs of providing the services because its accounting and billing system was not able to track the actual costs. This resulted in the user being overcharged.

OIRM is taking corrective action.

Security Problems at OFM's National Finance Center (NFC) Are Corrected

The software which controls the flow of jobs and the allocation of resources in a computer is called the operating system. At OFM/NFC this operating system is called Multiple Virtual Storage/Enterprise Systems Architecture. Our prior semiannual report advised that certain computer programs allowed users unrestricted access to this operating system, thereby seriously compromising the security and integrity of all administrative and financial systems at OFM/NFC. Our followup work showed that OFM/NFC took timely and effective action to correct the vulnerabilities we identified. However, because of the serious potential

impact any breach of the operating system could cause, we continued our work in this area.

We found that OFM/NFC needed to (1) improve security audit trails, (2) restrict access to sensitive programs to only those users who are required by job responsibilities to use them, and (3) remove extraneous table entries and computer programs from the system which might be used to bypass internal security measures. OFM/NFC officials initiated effective action during the audit to correct these problems.

PROCUREMENT/NONPROCUREMENT ACTIVITIES

Agencies Not Fully Aware of Nonprocurement Debarment and Suspension Requirements

Many of the USDA agencies we reviewed had not implemented systems for debarment and suspension of nonprocurement program participants. Officials of some agencies believed that their programs were excluded from nonprocurement debarment and suspension requirements, while officials of other agencies did not have a complete understanding of these requirements. USDA management has required that agency officials reevaluate their programs to determine those covered and establish a system for debarment and suspension of nonprocurement program activities

AUDITS OF CONTRACTS

OIG audits of contracts are performed to assist USDA procurement offices in the negotiation, administration, and settlement of USDA contracts and subcontracts. OIG performed or arranged for audits of 13 pricing proposals, cost reimbursement contracts, or contractor claims. These audits resulted in questioned costs or potential savings of about $1.3 million. Also, during this period, management decisions were made on 11 audits, resulting in savings of about $960,000.

Unallowable or Unsupported Contract Costs

- Our audit of an equitable adjustment claim filed with the Forest Service for road construction questioned about $150,800 of the $184,300 claimed by the contractor. The contractor could not provide adequate documentation to support the costs claimed. Some of the questioned costs resulted from calculations which were inconsistent with the original cost proposal, incorrect calculations of certain unabsorbed overhead costs, and unallowable profits. The claim is pending before the USDA Board of Contract Appeals.

- Our audit of an equitable adjustment claim filed with the Soil Conservation Service questioned almost $925,500 of the $1,667,000 claimed by the contractor. The contractor could not provide adequate documentation to support the costs claimed. Some of the questioned costs resulted from calculations which were inconsistent with the original cost proposal, incorrect calculations of certain unabsorbed overhead costs, and unallowable profits. The claim is scheduled for trial.

OVERSIGHT OF NON-FEDERAL AUDITORS

OIG monitors the work performed by non-Federal auditors for program agencies of the Department and takes appropriate steps to ensure that their work complies with the standards established by the Comptroller General. For the 21 single audits of State and local governments where OIG has been assigned cognizance, we work closely with both the auditee and the independent auditors, meeting with them frequently to monitor the progress of the audit and to provide technical assistance. OIG reviews the single audit work performed by non-Federal auditors to determine that it meets the requirements of OMB Circular A-128, Audits of State and Local Governments, and the standards promulgated by the Comptroller General. In addition, OIG participates in the quality control reviews of statewide audits of State agencies administering major USDA programs, which are led by other assigned cognizant Federal audit organizations. During this 6-month period, OIG reviewed 19 Single Audit Act and other organizationwide audit reports. Of these, 10 contained deficiencies which we brought to the attention of the auditees and their auditors. For example, in one case, a quality control review found that the auditor did not review indirect costs sufficiently. As a result, the USDA program agency reduced the State's letter of credit by $57,000, the approximate cost of the audit.

In this reporting period, we issued 19 audit reports which contained 31 recommendations with associated monetary values of $152,000 in questioned costs. We believe that the larger State and local government audits have become more effective each year and that accountability of Federal funds has improved. For example, one State auditor identified serious accountability problems which had gone uncorrected for several years. The State auditor issued disclaimers since FY 1983 because the auditee's accounting records were inadequate for identifying financial transactions applicable to individual Federal grants and the general fixed asset group of accounts. As a result, the State auditor questioned the amount of Federal expenditures for both fiscal years, which totaled about $1.9 million. We recommended that the Federal agency

take aggressive action to ensure that the nearly 50 recommendations in the current report are carried out in a timely manner. Fiscal sanctions against the State may be needed.

Also, we received and distributed 94 reports furnished to us by other cognizant Federal agencies. We also have oversight responsibility for the quality of numerous reports submitted directly by non-Federal auditors pursuant to program requirements. These non-Federal audit reports are submitted directly to program managers. Our past reviews of the quality of work performed led to the referral of 17 Certified Public Accounting firms to State boards of accountancy for substandard work. Actions by the American Institute of Certified Public Accountants (AICPA) and State boards have been completed on all but one case. Sanctions by the State boards and the AICPA have included requiring continuing education courses, censure, suspension, and fines. In addition, since USDA rules on debarring and suspending nonprocurement program participants went into effect, we have referred one case to program officials for consideration of administrative action.

STATISTICAL DATA

Audits Without Management Decisions

The following audits did not have management decisions made within the 6-month limit imposed by Congress.

Agency	Date Issued	Title of Report	Dollar Value
Audits Pending Agency Action			
ASCS	9/30/88	1. Deficiency Payments to Hybrid and Certified Seed Producers (03099-70-Ch) [a]	$114,071,429
	5/17/89	2. Unauthorized Use of Farmers Home Administration (FmHA) Inventory Farm Property (50099-20-At) [a]	$ 569,000
	7/20/89	3. Maximum Payment Limitation Provisions in Arkansas (03097-4-Te) [a]	$ 2,867,614
	9/29/89	4. 1987 Common Payment Limitation Provisions (03600-1-Te) [a]	-0-
	9/30/89	5. Controls Over Conservation Reserve Program Contract Approvals (03099-136-KC) [a]	$ 36,014
	3/30/90	6. Pennsylvania State and County Office Administration (03001-47-Hy)	$ 205,338
	3/28/90	7. 1988 Disaster Program in Ohio (03099-79-Ch)	$ 351,845
FCIC	9/29/89	8. Hybrid Seed Crop Insurance (05099-15-Ch) [a]	$ 278,702
	7/31/89	9. Claims Adjusted by Crop Hail Management for Indemnities by Producers Who Received Large Payments from ASCS (05099-32-Te) [a]	$ 8,412
FmHA	5/10/89	10. Business and Industrial Loan to Gulf Coast Wood Products (04099-149-Te) [a]	$ 4,350,000
	3/28/90	11. Texas State Office Business and Industrial Loan Program (04002-1-Te)	$ 4,899,161
FS	1/8/90	12. Equitable Adjustment Claim - Buno Construction Company (08545-46-SF)	$ 262,419
Audits Pending Action Outside the Department			
FmHA	9/2/88	13. Business and Industrial Loan to Le Bossier Hotel, Louisiana (04099-135-Te) [a]	$ 8,736,576
SCS	10/12/89	14. Incurred Cost Audit - Bil-Jim Construction Co. (16545-1-Hy)	$ 682,690

[a] Reported in last Semiannual Report.

1. ***Excessive Deficiency Payments to Hybrid Seed Producers, Issued September 30, 1988***

   We recommended that ASCS use actual yields when computing deficiency payments for program acreages planted for the production of hybrid seed. We also recommended that ASCS either seek legislation to exclude producers of nonprogram crops from receiving deficiency payments or establish separate market prices for these nonprogram crops. ASCS advised that this issue will not be decided until action is completed on the 1990 farm bill. We are continuing our efforts to obtain a management decision.

2. ***Unauthorized Use of FmHA Inventory Farm Property, Issued May 17, 1989***

   The audit identified 16 persons who operated FmHA inventory property and collected over $569,000 in ASCS program payments without having a lease from FmHA. ASCS agreed to initiate collection for eight of the cases totaling nearly $60,000, but disagreed that collection action was warranted for the remaining eight cases involving nearly $510,000. Since the producers had lost title to the property before enrolling in the ASCS programs, they were not entitled to the program payments received. We are continuing to work with the agency to obtain a management decision.

3. ***Maximum Payment Limitation Provisions in Arkansas, Issued July 20, 1989***

   ASCS has not provided an adequate response to the audit recommendations. We are continuing to work with them to develop an acceptable response.

4. ***1987 Common Payment Limitation Provisions, Issued September 29, 1989***

   ASCS has not initiated corrective action. We are continuing to work with the agency.

5. ***Controls Over CRP Contract Approvals, Issued September 30, 1989***

   ASCS has not provided an adequate response to one recommendation. We are continuing to work with the agency to develop an acceptable response.

6. ***Pennsylvania State and County Office Administration, Issued March 30, 1990***

   ASCS has not provided an adequate response to 3 of the 17 recommendations. We are continuing to work with the agency to develop an acceptable response.

7. ***1988 Disaster Program in Ohio, Issued March 28, 1990***

   ASCS has not provided a corrective action plan and timeframes for two remaining recommendations. We are continuing to work with the agency to develop an acceptable corrective action plan.

8. ***Hybrid Seed Crop Insurance, Issued September 29, 1989***

   The audit contains one issue for which FCIC has not provided an acceptable management decision. FCIC has not agreed to establish accounts receivable for certain claim overpayments.

9. ***Claims Adjusted by Crop Hail Management for Indemnities by Producers Who Received Large Payments from ASCS, Issued July 31, 1989***

   FCIC has not replied to two audit recommendations. The audit recommended that FCIC recover questionable replant payments and related claims. FCIC has delayed their final response to the audit recommendations because there were several reports involving the same company. We are continuing to work with the agency to develop an acceptable response for all of the audit reports.

10. ***Business and Industrial Loan to Gulf Coast Wood Products, Texas, Issued May 10, 1989***

    The audit recommended that FmHA, upon receipt of the lender's loss claim, refer the violations of the lender's agreement to the Office of the General Counsel and request that the Office of the General Counsel determine the extent to which FmHA may enforce the loan guarantee. The lender has not yet filed an estimated or final loss report with FmHA. Accordingly, the agency can take no further action at this time.

11. ***Texas State Office Business and Industrial Loan Program, Issued March 28, 1990***

    The audit recommended that FmHA conduct an assessment of each questioned loan in the audit to establish the monetary amounts of potential claims against lenders. FmHA will subsequently have to obtain the Office of the General Counsel's determination as to the extent to which FmHA may enforce the loan guarantee and recover losses covered by the guarantee. FmHA has agreed with the recommendations and its review is underway.

12. ***Equitable Adjustment Claim - Buno Construction Co., Issued January 8, 1990***

    The audit questioned costs submitted by the contractor. The contracting officer is preparing a final settlement offer concerning the claims submitted by the contractor.

13. ***Business and Industry Loan to Le Bossier Hotel, Louisiana, Issued September 2, 1988***

    The audit recommended that FmHA refer to the Office of the General Counsel the violations of the lender's agreement and request the Office of the General Counsel to determine the extent to which FmHA may enforce the loan guarantee and recover losses covered by the guarantee. The Office of the General Counsel completed its review and referred the case to the Department of Justice for concurrence before initiating litigation.

14. ***Insured Cost Audit - Bil-Jim Construction Co., Issued October 12, 1989***

    The Department of Justice, on behalf of the Soil Conservation Service's contracting officer, is involved with court proceedings to resolve the claim.

Indictments and Convictions

Between April 1, 1990, and September 30, 1990, OIG completed 738 investigations. We referred 521 cases to Federal, State, and local prosecutors for their prosecutive decisions.

During the reporting period, our investigations led to 615 indictments and 303 convictions. Fines, recoveries/collections, and restitutions resulting from our investigations totaled about $15.6 million. Costs of about $1.2 million were avoided. Administrative penalties of approximately $270,000 were assessed.

Figure 9 is a breakdown, by agency, of indictments and convictions for the reporting period.

Figure 9

Agency	April - September 1990		Total for FY 1990	
	Indictments	Convictions [a]	Indictments	Convictions [a]
AMS	1	2	2	3
APHIS	4	2	6	7
ARS	1	0	1	0
ASCS	21	30	42	53
FAS	8	9	11	10
FCIC	0	0	2	2
FGIS	0	0	2	2
FmHA	33	53	76	102
FNS	531	194	657	466
FS	1	2	3	4
FSIS	14	11	33	21
OFM	1	0	1	0
REA	0	0	2	1
Multi-Agencies	0	0	1	0
Totals	615	303	839	671

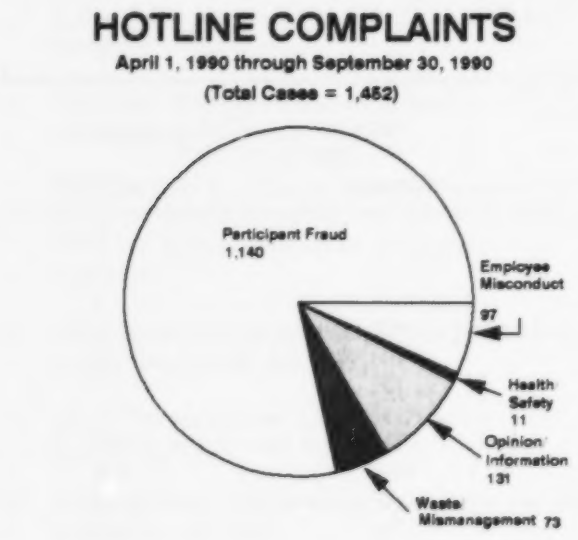
[a] This category includes Pretrial Diversions

Hotline Complaints

The OIG Hotline serves as a national receiving point for reports, by both departmental employees and the general public, of suspected incidents of fraud, waste, and abuse in USDA programs and operations. During this reporting period, the OIG Hotline received and analyzed 1,452 complaints. We investigated or audited 132 of these complaints and referred 24 to other Federal law enforcement agencies. We referred 1,021 complaints to the administering USDA agency for resolution and response to OIG. Of the remainder, we provided 240 complaints to the responsible USDA agency for information (no response to OIG was requested), while 35 contained insufficient information to take any action.

The 24-hour, toll-free telephone number continues to be the major source for receipt of Hotline complaints. The majority of complaints are allegations of participant fraud in USDA's programs. Figure 10 shows a breakdown of the various types of allegations for this reporting period.

Figure 10



Freedom of Information Act Activities

OIG processed 263 requests under the Freedom of Information Act (FOIA) compared with 212 for the previous 6 months. The following presents FOIA data for this and the previous reporting period.

	Last Period	This Period
Number of Requests	303	264
Number of Favorable Responses	160	157
Number of Unfavorable Responses	52	106
Unfavorable Responses Due to:		
No Records Available	14	22
Requests Denied in Full	14	28
Requests Denied in Part	24	56
Totals	52	106
Other Data Not Affected Directly by the Requests:		
Appeals Granted	1	1
Appeals Denied in Full	2	1
Appeals Denied in Part	1	1
Number of OIG Reports Released in Response to Requests	264	310

NOTE: A request can require more than one report in response.

INVENTORY OF AUDIT REPORTS RELEASED WITH QUESTIONED COSTS AND LOAN

	NUMBER	DOLLAR VALUES QUESTIONED COSTS AND LOANS	DOLLAR VALUES UNSUPPORTED[a] COSTS AND LOANS
A. FOR WHICH NO MANAGEMENT DECISION HAD BEEN MADE BY OCTOBER 1, 1989	132	$38,898,525	$24,164,227
B. WHICH WERE ISSUED DURING THIS REPORTING PERIOD	45	$112,698,408	$ 1,420,938
TOTALS	177	$151,596,933	$25,585,165
C. FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THIS PERIOD	129		
(1) DOLLAR VALUE OF DISALLOWED COSTS		$8,495,753	$4,173,316
(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		$9,276,924	$ 7,555,288
D. FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THIS REPORTING PERIOD	47	$132,649,758	$13,863,092
REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	11	$22,014,836	$12,447,294

[a] Unsupported values are also included in questioned values.

INVENTORY OF AUDIT REPORTS RELEASED WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE

	NUMBER	DOLLAR VALUES
A. FOR WHICH NO MANAGEMENT DECISION HAD BEEN MADE BY OCTOBER 1, 1989	22	$245,001,630
B. WHICH WERE ISSUED DURING THIS REPORTING PERIOD	17	$199,216,065
TOTALS	39	$444,817,695
C. FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THIS PERIOD	17	
(1) DOLLAR VALUE OF DISALLOWED COSTS		$74,488,915
- BASED ON PROPOSED MANAGEMENT ACTION		$74,488,915
- BASED ON PROPOSED LEGISLATIVE ACTION		
(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		$ 653,908
D. FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THIS REPORTING PERIOD	22	$369,776,905
REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	7	$172,057,163

INVENTORY OF AUDIT REPORTS RELEASED WITH IMPROPER AGENCY ACTIONS

	NUMBER	DOLLAR VALUES[a]
A. FOR WHICH NO MANAGEMENT DECISION HAD BEEN MADE BY OCTOBER 1, 1989	40	$201,999,205
B. WHICH WERE ISSUED DURING THIS REPORTING PERIOD	11	$212,681,360
TOTALS	51	$414,680,565
C. FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THIS PERIOD	39	
(1) DOLLAR VALUE OF DISALLOWED COSTS		$139,351,593
(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		$ 61,655
D. FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THIS REPORTING PERIOD	12	$265,244,999
REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	5	$62,710,076

[a]Not intended for collection

SUMMARY OF AUDIT REPORTS RELEASED BETWEEN APRIL 1, 1990 AND SEPTEMBER 30, 1990

DURING THE 6-MONTH PERIOD BETWEEN APRIL 1, 1990 AND SEPTEMBER 30, 1990, THE OFFICE OF INSPECTOR GENERAL ISSUED 115 AUDIT REPORTS, INCLUDING 13 PERFORMED UNDER CONTRACT BY CERTIFIED PUBLIC ACCOUNTANTS.

THE FOLLOWING IS A SUMMARY OF THOSE AUDITS BY AGENCY:

AGENCY	AUDITS RELEASED	QUESTIONED COSTS AND LOANS	UNSUPPORTED [a] COSTS AND LOANS	FUNDS BE PUT TO BETTER USE	IMPROPER AGENCY ACTION
AGRICULTURAL MARKETING SERVICE	2	0	0	0	0
AGRICULTURAL RESEARCH SERVICE	3	$602			
AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE	26	$90,781,501	$209,804	$5,858,511	$175,242,194
FARMERS HOME ADMINISTRATION	19	$18,764,023	$1,186,633	$1,798,034	$32,591,282
FEDERAL CROP INSURANCE CORPORATION	3	$24,181			$1,136,168
EXTENSION SERVICE	1				
FOREIGN AGRICULTURAL SERVICE	1				
FOREST SERVICE	6	$420,488		$4,028,615	$832,319
SOIL CONSERVATION SERVICE	4	$1,007,196		$150,261	
OFFICE FINANCE AND MANAGEMENT	3	$10,290			
OFFICE OF OPERATIONS	3	0	0	0	0
FOOD SAFETY & INSPECTION SERVICE	1				
NATIONAL AGRICULTURAL STATISTICS SERVICE	1			$187,100,000	
FOOD AND NUTRITION SERVICE	14	$1,538,322	$19,139	$280,644	$2,879,397
ANIMAL & PLANT HEALTH INSPECTION SERVICE	2				
OFFICE INTERNATIONAL COOPERATION AND DEVELOPMENT	1				
MULTI AGENCY	24	$151,805	$5,362		
OFFICE OF INFORMATION RESOURCES MANAGEMENT	1				
TOTALS	115	$112,698,408	$1,420,938	$199,216,065	$212,681,360

TOTAL COMPLETED:	
SINGLE AGENCY AUDIT	91
MULTI AGENCY	24
TOTAL RELEASED NATIONWIDE	115
TOTAL COMPLETED UNDER CONTRACT [b]	13
TOTAL SINGLE AUDITS [c]	19

[a] Unsupported values are included in questioned values.

[b] Indicates audits performed by others.

[c] Indicates audits completed as Single Audit (OIG cognizant).

AUDIT REPORTS RELEASED AND ASSOCIATARY VALUES
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AUDIT NO. RELEASE DATE	TITLE	AUDITS RELEASED	QUESTIONED COSTS & LOANS	UNSUPPORTED COST & LOANS	FUNDS BE PUT TO BETTER USE	IMPROPER AGENCY ACTION
AGENCY - AGRICULTURAL MARKETING SERVICE						
01-099-0023-AT 90/08/23	REFERENDUM ON LIME AND AVACADO MARKETING ORDER, WINTER HAVEN, FL					
01-099-0050-SF 90/07/25	KIWIFRUIT MARKETING ORDER REFERENDUM - FRESNO, CA					
TOTAL: AGRICULTURAL MARKETING SERVICE		2				
AGENCY - AGRICULTURAL RESEARCH SERVICE						
02-545-0006-SF 90/05/23	INCURRED COST AUDIT - GLOBAL ASSOCIATES OAKLAND, CA					
02-545-0006-TE 90/05/23	CONTRACT COSTS FOR FYS 1988 AND 1989, CONTRACT NO. 53-3K06-8-30					
02-545-0023-HY 90/07/17	RICHARD S. CARSON AND ASSOCIATE, BETHESDA, MD - CLOSE OUT REPORT		$602			
TOTAL: AGRICULTURAL RESEARCH SERVICE		3	$602			
AGENCY - AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE						
03-011-1105-KC 90/08/03	CACHE COUNTY OFFICE OPERATIONS		$4,885	$965		
03-011-1106-KC 90/08/03	BOX ELDER COUNTY AGRICULTURAL CONSERVATION PROGRAM		$26,500			
03-011-1107-KC 90/08/03	SANETE COUNTY OFFICE OPERATIONS		$19,589		$112,024	
03-011-1108-KC 90/08/22	SAN JUAN COUNTY OFFICE OPERATIONS		$310,518	$166,356	$350,380	
03-091-0019-FM 90/08/08	IMPROVED CONTROLS/OVERSIGHT WOULD REDUCE LOSSES TO CCC ON "PROBLEM" WAREHOUSES		$1,233,600			$10,023,800
03-091-0105-TE 90/06/14	1988 PEANUT PRICE SUPPORT PROGRAM AT SWPGA, GORMAN, TX					
03-099-0027-FM 90/09/07	ASCS/CCC PAYMENT COLLECTION SYSTEMS				$2,905,752	
03-099-0042-HY 90/07/13	PIPER BROTHERS PARTNERSHIP PARTICIPATION IN WHEAT AND FEED GRAIN PROGRAM					$46,683
03-099-0131-KC 90/04/16	ESCALATION OF CROP ACREAGE BASES NATIONWIDE					
03-099-0143-KC 90/08/21	COUNTY OFFICE OPERATIONS IN UT					
03-099-0144-TE 90/06/05	DISASTER ASSISTANCE PROGRAM OPERATIONS, BRADLEY CO., AR		$293,201			
03-099-0145-TE 90/05/03	CONTROL OF MAXIMUM PAYMENT LIMITATION 1989 - AR					
03-099-0146-KC 90/05/23	FARM STORAGE AND FACILITY LOAN PROGRAM REPAYMENT ACTIVITIES				$1,476,818	
03-099-0146-TE 90/09/21	CRP ELIGIBILITY - PMT. LIM. REQ., MOORE AND RANDALL COS., TX		$510,048		$999,618	
03-099-0147-TE 90/05/23	ASCS CONTROL OF MAXIMUM PAYMENT LIMITATION 1989 - LA					
03-099-0148-TE 90/06/20	CONTROL OF MAXIMUM PAYMENT LIMITATION 1989 - CA					
03-099-0149-KC 90/05/22	ADMINISTRATION OF ASCS YIELD PROVISIONS IN PENNINGTON COUNTY, SD					
03-099-0150-KC 90/09/26	CRP APPLICATION OF ELIGIBILITY AND PAYMENT LIMITATION REQUIREMENTS					
03-099-0151-KC 90/05/24	LIVESTOCK FEED PROGRAM IN SULLIVAN COUNTY, MILAN, MO		$42,483	$42,483		
03-545-0014-HY 90/05/17	CLOSE-OUT AUDIT, PEAT MARWICK & MAIN CONTRACT 53-3151-5-00102					

AUDIT REPORTS RELEASED AND ASSOCIATARY VALUES
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AUDIT NO. RELEASE DATE	TITLE	AUDITS RELEASED	QUESTIONED COSTS & LOANS	UNSUPPORTED COST & LOANS	FUNDS BE PUT TO BETTER USE	IMPROPER AGENCY ACTION
03-545-0017-HY 90/06/29	CLOSE-OUT AUDIT-RJO				$13,919	
03-600-0003-CH 90/06/15	1988 DISASTER PROGRAM		$87,186,808			$165,171,711
03-600-0005-SF 90/06/08	IMPLEMENTATION OF EMERGENCY FEED PROGRAM IN CA		$566,359			
03-600-0007-KC 90/06/29	INTERNAL CONTROL STRUCTURE FOR ASCS/CCC PROGRAM OPERATIONS					
03-600-0011-TE 90/06/21	IMPLEMENTATION OF LIVESTOCK FEED PROGRAMS - TX		$587,510			
03-600-0013-TE 90/09/28	IMPLEMENTATION OF LIVESTOCK FEED PROGRAMS					
TOTAL: AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE		26	$90,781,501	$209,804	$5,858,511	$175,242,194
AGENCY - FARMERS HOME ADMINISTRATION						
04-099-0072-FM 90/09/24	COLLECTION SYSTEMS AND OTHER SELECTED ACTIVITIES		$313		$254,273	
04-099-0073-HY 90/08/03	BUSINESS AND INDUSTRY CLOSEOUT -AVTEX FIBERS FRONT ROYAL, INC.		$14,752,446			
04-099-0074-FM 90/09/25	DEBT & LOAN RESTRUCTURING SYSTEM & RELATED COMPUTER SYSTEM MODIFICATIONS					
04-099-0080-SF 90/09/26	RURAL RENTAL HOUSING PROGRAM - MALHEUR VILLAGE, VALE, OR					
04-099-0092-CH 90/09/26	BUSINESS AND INDUSTRY LOAN TO TELEMARK ENTERPRISES, WI					
04-099-0100-KC 90/04/09	SERVICING OF BORROWER CASES WITH CONVERSIONS OF SECURITY PROPERTY					
04-099-0106-KC 90/06/22	RURAL RENTAL HOUSING PROJECT IN KS		$131,689	$29,383		
04-099-0107-KC 90/07/17	BUSINESS AND INDUSTRIAL LOAN IN WY		$700,876			
04-099-0108-KC 90/07/11	SERVICING OF RURAL RENTAL HOUSING PROJECTS IN KS		$672,406			
04-099-0158-TE 90/07/20	RURAL RENTAL HOUSING PROGRAM OPERATIONS AT CALHOUN PROPERTY MGT, INC., MANSFIELD, LA					$72,091
04-099-0297-AT 90/05/31	GRADUATION PILOT PROJECT, NC					$3,863
04-099-0299-AT 90/09/28	RRH LOAN PROGRAM ACTIVITIES - KY		$393,058		$1,543,761	
04-545-0024-HY 90/05/17	CONTRACT AUDITS CLOSEOUT AUDIT, PEAT, MARWICH					
04-600-0003-SF 90/08/16	LOAN MAKING IN THE FMHA BUSINESS AND INDUSTRIAL LOAN PROGRAM					$12,678,599
04-600-0004-SF 90/05/09	MANAGEMENT OF THE RRH AND RH PROGRAMS IN CA					
04-600-0005-TE 90/09/26	INTERMEDIARY RELENDING PROGRAM, DC		$1,865,678	$1,157,250		
04-600-0009-AT 90/05/03	EMERGENCY LOSS LOAN PROGRAM DC					
04-600-0010-AT 90/07/25	MANAGEMENT OF THE RRH AND RH PROGRAMS NC		$247,557			$19,836,729
04-600-0011-AT 90/07/31	SERVICING OF BORROWERS PARTICIPATING IN THE ASCS CONSERVATION RESERVE PROGRAM					
TOTAL: FARMERS HOME ADMINISTRATION		19	$18,764,023	$1,186,633	$1,798,034	$32,591,282
AGENCY - FEDERAL CROP INSURANCE CORP						
05-091-0001-TE 90/08/10	FIELD UNDERWRITING OFFICE OPERATIONS SURVEY					$1,118,269
05-099-0046-CH 90/05/24	POLICY NO. 31788 LARGE 1988 CROP YEAR INDEMNITIES		$6,371			

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AUDIT NO. RELEASE DATE	TITLE	AUDITS RELEASED	QUESTIONED COSTS & LOANS	UNSUPPORTED COST & LOANS	FUNDS BE PUT TO BETTER USE	IMPROPER AGENCY ACTION
05-099-0099-KC 90/05/16	POLICY NUMBERS 8961 DES MOINES COUNTY AND 8956 LOUISA COUNTY, IA		$17,810			$17,899
TOTAL: FEDERAL CROP INSURANCE CORP		3	$24,181			$1,136,168
AGENCY - EXTENSION SERVICE						
06-002-0003-AT 90/09/28	EXTENSION FACILITIES PROGRAM					
TOTAL: EXTENSION SERVICE		1				
AGENCY - FOREIGN AGRICULTURAL SERVICE						
07-020-0002-HY 90/09/26	PARTICIPANT CONTRIBUTIONS TO THE TARGETED EXPORT ASSISTANCE PROGRAM					
TOTAL: FOREIGN AGRICULTURAL SERVICE		1				
AGENCY - FOREST SERVICE						
08-097-0001-AT 90/06/29	DEBT MANAGEMENT AND COLLECTION INITIATIVES					
08-099-0009-KC 90/09/05	MINERALS AREA MANAGEMENT					
08-099-0109-SF 90/09/05	MANAGEMENT OF TIMBER SALE CONTRACT DEFAULTS		$269,622			
08-545-0049-SF 90/06/07	EQUITABLE ADJUSTMENT CLAIMS - HIGHLAND ENTEPRISES, INC., GRANGEVILLE, ID		$150,866			
08-600-0006-AT 90/09/25	ANALYSIS OF BRUSH DISPOSAL FUND BALANCES AND EXPENDITURES				$3,880,615	$832,319
08-600-0007-AT 90/08/14	MICROWAVE COMMUNICATION SYSTEM DEVELOPMENT				$148,000	
TOTAL: FOREST SERVICE		6	$420,488		$4,028,615	$832,319
AGENCY - SOIL CONSERVATION SERVICE						
10-099-0010-KC 90/09/28	IMPLEMENTATION OF 1985 FOOD SECURITY ACT CONSERVATION PROVISIONS					
10-545-0024-SF 90/08/30	EQUITABLE ADJUSTMENT CLAIM - PULICE CONSTRUCTION, INC., PHOENIX, AZ		$925,465			
10-545-0025-SF 90/09/07	EQUITABLE ADJUSTMENT CLAIM - J.D. DUTTON, INC., OLYMPIA, WA		$81,731			
10-545-0027-TE 90/09/20	COST PROPOSAL FOR SOLICITATION SCS-10-TX-90, RED DEER CREEK WATERSHED, SITE 13, PHASE I				$150,261	
TOTAL: SOIL CONSERVATION SERVICE		4	$1,007,196		$150,261	
AGENCY - OFFICE OF FINANCE AND MANAGEMENT						
11-099-0022-FM 90/09/25	SELECTED PAYROLL/PERSONNEL OPERATIONS AT NFC		$10,290			
11-099-0023-FM 90/09/25	SECURITY OVER SELECTED ASPECTS OF OFM/NFC COMPUTER OPERATING SYSTEM					
11-530-0007-FM 90/09/25	INTERNAL CONTROLS OVER NFC PARTICIPATION IN TREASURY'S OPAC SYSTEM					
TOTAL: OFFICE OF FINANCE AND MANAGEMENT		3	$10,290			
AGENCY - OFFICE OF OPERATIONS						
23-545-0001-TE 90/07/27	CONTRACT NO. 53-3142-8-6014 WITH MACOA, EL PASO, TX					

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AUDIT NO. RELEASE DATE	TITLE	AUDITS RELEASED	QUESTIONED COSTS & LOANS	UNSUPPORTED COST & LOANS	FUNDS BE PUT TO BETTER USE	IMPROPER AGENCY ACTION
23-545-0007-HY 90/07/30	CANTEEN CORPORATION-PREAWARD AUDIT					
23-545-0008-HY 90/07/30	INCURRED COST AUDIT-CANTEEN CORPORATION					
	TOTAL: OFFICE OF OPERATIONS	3				
AGENCY - FOOD SAFETY & INSPECTION SERVICE						
24-099-0005-AT 90/06/26	LABELING POLICIES AND APPROVALS					
	TOTAL: FOOD SAFETY & INSPECTION SERVICE	1				
AGENCY - NATIONAL AGRICULTURAL STATISTICS SERVICE						
26-600-0001-AT 90/09/26	REVIEW OF DATA USED TO DETERMINE ASCS DEFICIENCY RATES FOR UPLAND COTTON				$187,100,000	
	TOTAL: NATIONAL AGRICULTURAL STATISTICS SERVICE	1			$187,100,000	
AGENCY - FOOD AND NUTRITION SERVICE						
27-013-0083-HY 90/04/13	FSP OPERATIONS IN UPSTATE NY - SURVEY		$12,029			
27-019-0040-HY 90/09/26	NY CITY FSP WAGE MATCHING		$189,251			
27-019-0041-HY 90/09/26	NJ FSP WAGE MATCH		$67,156			
27-019-0061-CH 90/05/23	FOOD STAMP PARTICIPANT MATCH OH		$12,333			
27-023-0193-CH 90/09/25	CANTEEN SERVICE COMPANY - NSLP CONTRACTS WITH SCHOOL DISTRICT IN MI		$2,957		$19,912	
27-028-0001-TE 90/05/01	FNS SUMMER FOOD SERVICE PROGRAM, PRIVATE NONPROFIT SPONSORS, TX		$23,921			
27-029-0336-HY 90/06/27	CCFP NY CITY HOUSING AUTHORITY					
27-029-0345-HY 90/08/03	CCFP BOYS HARBOR, INC		$81,217		$87,905	
27-030-0002-KC 90/09/26	MPR-REGIONAL OFFICE - SUPP. FOOD PROGRAM FOR WOMEN,INFANTS,AND CHILDREN - ADM. COSTS		$490,222	$19,139		
27-031-0021-AT 90/06/26	WIC ADMINISTRATIVE COST CLAIMED IN GA		$232,732		$19,505	
27-080-0002-HY 90/09/26	SAFEGUARDS TO PREVENT FRAUD AND WASTE IN USE OF NAP GRANT FUNDS		$40,389			
27-099-0059-HY 90/07/18	WIC ADMINISTRATIVE COST -NER		$110,964			
27-099-0083-CH 90/08/10	ACCOUNTABILITY OVER CNP FUNDING - OH		$144,161		$50,000	$2,879,397
27-600-0001-TE 90/08/29	ADMINISTRATIVE COST OF WIC PROGRAM IN OK		$130,990		$103,322	
	TOTAL: FOOD AND NUTRITION SERVICE	14	$1,538,322	$19,139	$280,644	$2,879,397
AGENCY - ANIMAL & PLANT HEALTH INSPECTION SERVICE						
33-004-0001-HY 90/06/29	PPQ PEST EXCLUSION ACTIVITIES					
33-099-0001-TE 90/06/15	PROCUREMENT PRACTICES OF THE PPQ FACILITIES, MISSION, TX					
	TOTAL: ANIMAL & PLANT HEALTH INSPECTION SERVICE	2				

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AUDIT NO. RELEASE DATE	TITLE	AUDITS RELEASED	QUESTIONED COSTS & LOANS	UNSUPPORTED COST & LOANS	FUNDS BE PUT TO BETTER USE	IMPROPER AGENCY ACTION
AGENCY - OFFICE INTERNATIONAL COOPERATION AND DEVELOPMENT						
44-060-0001-HY 90/07/13	FINANCIAL MANAGMENT SYSTEMS					
TOTAL: OFFICE INTERNATIONAL COOPERATION AND DEVELOPMENT		1				
AGENCY - MULTI AGENCY						
50-099-0022-AT 90/06/25	SURVEY of DEBARMENT AND SUSPENSION ACTIVITIES IN USDA					
50-099-0054-HY 90/04/18	FOREIGN COMPLAINTS ON US GRAIN EXPORTS - DC					
50-099-0055-HY 90/08/15	RELOCATION SERVICES					
50-099-0060-HY 90/05/09	ADP INTEGRITY-PROCUREMENT PROCESS					
50-099-0064-HY 90/08/06	EVALUATION OF INTERNAL CONTROL PROCESS					
50-566-0009-TE 90/09/05	A-128, AR FORESTRY COMMISSION, LITTLE ROCK, AR, FYE 6/30/89					
50-566-0010-CH 90/05/08	A-128 AUDIT OF IL DEPARTMENT OF AGRICULTURE					
50-566-0011-CH 90/09/26	A-128 AUDIT OF THE STATE OF MN FOR FISCAL YEAR ENDED JUNE 30, 1989					
50-566-0015-SF 90/05/02	A-128 AUDIT REPORT ON THE STATE OF AZ LAND DEPT. FOR THE FISCAL PERIOD 7/1/86 - 6/30/88		$1,033			
50-566-0016-SF 90/05/09	A-128 AUDIT REPORT ON THE AK DEPT. OF ENVIRONMENTAL CONSERVATION FOR FYE 6/30/88		$5,140	$5,140		
50-566-0017-SF 90/05/08	A-128 AUDIT - CITY OF SAN JOSE, CA FYE 6/30/89					
50-566-0018-AT 90/05/09	A-128, S.C. FORESTRY COMMISSION, COL UMBIA, SC, TWO FYES 6/30/87 AND 6/30/88					
50-566-0018-SF 90/08/28	A-128 AUDIT-HI DEPARTMENT OF AGRICULTURE FYE 6/30/89		$7,288			
50-566-0019-AT 90/09/26	A-128, GA DEPARTMENT OF AGRICUL TURE, FYE 6/30/89		$138,122			
50-566-0020-AT 90/04/09	A-128, GA FORESTRY COMMISSION, FYE 6/30/89					
50-566-0020-KC 90/05/02	A-128, WY DEPARTMENT OF AGRICULTURE, (FY ENDED 6/89) CHEYENNE, WY					
50-566-0021-AT 90/09/26	A-128, GA DEPT. OF AGRICULTURE, FYE 6/30/87					
50-566-0021-KC 90/07/09	A-128, WY BOARD OF LAND COMMISSIONERS & FARM LOAN BOARD, 6/30/89		$222	$222		
50-566-0022-AT 90/09/26	A-128, GA DEPT. OF AGRICULTURE, FYE 6/30/88					
50-566-0022-KC 90/07/26	A-128, NE DEPARTMENT OF AGRICULTURE, FY ENDED 6/89, LINCOLN, NE					
50-566-0032-HY 90/04/12	CT DEPARTMENT OF AGRICULTURE, A-128 SFYE 6/30/87 AND 6/30/88					
50-567-0018-TE 90/06/08	A-128 NM LIVESTOCK BOARD FOR YEAR ENDED JUNE 30, 1989					
50-567-0032-HY 90/04/30	CT AGRICULTURAL EXPERIMENT STATION A-128, SFYE JUNE 30, L986, 87 AND 88					
50-567-0033-HY 90/09/19	VA DEPARTMENT OF FORESTRY A-128, SFYE 6/30/89					
TOTAL: MULTI AGENCY		24	$151,805	$5,362		

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AUDIT NO. RELEASE DATE	TITLE	AUDITS RELEASED	QUESTIONED COSTS & LOANS	UNSUPPORTED COST & LOANS	FUNDS BE PUT TO BETTER USE	IMPROPER AGENCY ACTION
AGENCY - OFFICE OF INFORMATION RESOURCES MANAGEMT						
58-099-0019-FM 90/09/25	NCC-FC COMPLIANCE WITH OMB CIRCULAR A-97 AND PROCUREMENT REGS					
TOTAL: OFFICE OF INFORMATION RESOURCES MANAGEMENT		1				
TOTAL: RELEASED - NATIONWIDE		115	$112,698,408	$1,420,938	$199,216,065	$212,681,360